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**ADDIS ABABA UNIVERSITY
SCHOOL OF GRADUATE STUDIES**

**PRIVATIZED PUBLIC ENTERPRISES
PERFORMANCE EVALUATION:
RECENT ETHIOPIAN EXPERIENCE**

By

Mulatu Fekadu



**JUNE 2005
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Mulatu Fekadu Zerihun

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Master of Science in Economics**

**June 2005
Addis Ababa**



**ADDIS ABABA UNIVERSITY
SCHOOL OF GRADUATE STUDIES**

**Privatized Public Enterprises Performance
Evaluation: Recent Ethiopian Experience**

**By
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ABBREVIATIONS AND ACRONYMS

AAU	-----	Addis Ababa University.
ADLI	-----	Agricultural Development Led Industrialization
CCR	-----	Charnes, Cooper and Rahodes.
CRTS/ CRS	-----	Constant Returns to Scale.
CSA	-----	Central Statistics Authority.
DEA	-----	Data Envelopment Analysis.
DEAP	-----	Data Envelopment Analysis Package.
DMU	-----	Decision Making Unit.
EEA	-----	Ethiopian Economic Association
EPA	-----	Ethiopia Privatization Agency
EPR	-----	Economic Policy Reform
ERRP	-----	Economic recovery and Rehabilitation Program.
ESAF	-----	Enhanced Structural Adjustment Facility.
FDI	-----	Foreign Direct Investment.
FEACC	-----	Federal Ethics and Anti-Corruption Commission.
FDRE	-----	Federal Democratic Republic Ethiopia
FGLS	-----	Feasible Generalized least Squares.
IMF	-----	International Monetary fund.
IMS	-----	Import Share.
IP	-----	Intellectual Property
KI	-----	Capital intensity.
MDES	-----	Millennium Dev't Goals
MEDaC	-----	Ministry of Economic Development and cooperation.
MR	-----	Market Share.
PAPESA	-----	Privatization and Public Enterprises Supervisory Authority.

PEs -----Public Enterprises.

PLC ----- Private Limited Company.

PR -----Privatization.

SAP -----Structural Adjustment Program..

SDPRP -----Sustainable Development and Poverty Reduction

SFE ----- Stochastic Frontier Estimation.

SI -----Firm size.

SMS -----Squared Market share.

SPSS -----Statistical package for social Scientists.

SSA -----Sub Saharan Africa

TE -----Technical Efficiency.

TGE ----- Transitional Government of Ethiopia.

VRTS/VRS ----- Variable Returns to Scale.

WTO ----- World trade organization.

ABSTRACT

Ethiopia has been in the process of privatization since the mid 1990s. Attempts were made in this study to assess performance of privatized public enterprises during the last decade in Ethiopia. Percentage share of privatization proceeds to total revenue of the country for the years 1995/96 - 2001/02 were on average below 6 percent which implies that the prime objective of privatization in Ethiopia, revenue generation for financing development activities undertaken by the government, does not realized yet.

Privatization process in Ethiopia with regard to employment seems painless. However, the fate of employees in the state farms of the country and other divestitued former public enterprises had been miserable for those who have no social-security system to fall back on. Since the beginning of privatization, only slightly higher than half billion new investment is made on privatized SOEs. Much effort has to be exerted to attract FDI to the Country.

A panel data for 41 privatized large and medium scale manufacturing and agricultural industries covering a period of seven years (1995/96-2003/04) was taken. The hypothesis whether the privatization performance, interms of technical efficiency and profitability, in the public sector is indeed lower that of the post-privatization years of industries in Ethiopia was tested

The findings of this study are mixed. Out of the six categories in this study, only in the two cases i.e. in the cases of food processing and beverage sectors post privatization performance in terms of technical efficiently and profitability exhibit significant improvement. In the rest leather and textile, chemical, metal and wood, and agriculture no improvement is indicated both interims of technical efficiency and financial profitability.

On the basis of these findings privatization in Ethiopia doesn't meet its expectations for its outcomes are less satisfactory. In order to improve and sustain the outcomes of privatization, development of capital market and property right legislation, promoting good governance and strengthening the institutional capacity of all the levels of Federal units is critical.

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CHAPTER ONE

1. INTRODUCTION

1.1 Background of the Study:

Privatization is one policy measure among a set of structural reform such as liberalization, deregulation, financial sector restructuring, and opening to foreign direct investment.

Many developing countries have followed the path of privatization of the state-owned enterprises. Although the factors leading to privatization differ across countries, in most African countries, privatization of state-owned enterprises has been associated with World Bank and International Monetary Fund (IMF) sponsored structural adjustment Programs. (Chirwa, 2001)¹.

According to Boubakri and Cosset (1999), privatization in the African continent has been progressing more slowly than in other developing countries. This is because African countries are severely inhibited by institutional weaknesses in their effort to privatize, namely embryonic capital markets, scarce financial resources, a weak private sector, and poor prudential regulation.

The economic policy of the Country stresses the need for changing the role of the state in order to create a strong basis for an all-round development of the economy through sustainable and reliable growth. The existing realities necessitated the privatization of public enterprises. To this effect, a privatization program has been designed as a major component of the economic reform program.

The objectives of the program are worked out on the basis of the existing socio-economic environment of the Country. The objectives to be pursued could be sector-specific or enterprise-specific depending on the general development objectives or

¹ Unless otherwise mentioned, all the years are in Gregorian Calendar

the conditions of individual enterprises. In general terms the main objectives of the Ethiopian privatization program are achievement of economic efficiency and enhanced enterprise productivity through private sector ownership; increasing government revenue arising from sales proceeds of privatization; and reducing public sector expenditure on inefficient public enterprises thereby enabling the government to increase its investments in the development of infrastructure and basic social services.

The basis for the Ethiopian privatization program is the economic policy launched in 1991. Until the end of 2004, a total of 214 public enterprises are transferred to private investors by employing different privatization modalities. In Ethiopia, the most widely used modalities were sale of asset and Management Employment Buy Out (MEBO), 76 percent and 21 percent respectively. See Table 3.2 and Annex 4-A and B for the typology of the modalities used. The selection of the modalities was influenced by the size and nature of businesses of the enterprises that were offered for privatization. The majority of the enterprises were small retail trade outlets, small hotels and restaurants, and small-scale manufacturing establishments.

Around 1994, there were a few descriptive studies tried to analyzing the likely effects of privatization in the Ethiopian economy. Even though it was not timely, Rebeka (2001) attempted to evaluate the impact of privatization in the manufacturing sector of Ethiopia. Except this attempt no study has evaluated the performance of public and private enterprises empirically. This study is motivated by the existing empirical research gap in Ethiopia in the area under discussion.

1.2 Statement of the Problem

Efficient private sector makes essential contributions to the attainment of broader goals of economic development and poverty reduction. Privatization is one of the means available for promoting private sector development. (Kikeri, Suta.etal.1994). However, in Ethiopia the private sector was the most neglected one. During the Second Five -Year Development Plan period (1963-1968) there was relatively conducive economic environment for private sector development. Following the

issue of the Government Ownership and Control of the Means of Production Proclamation No.26/1975,the Provisional Administrative Council (PMAC), introduced a programme of sweeping nationalization and public sector development, which crowded out private industry. (Teshome Mulat, 1994).

Before the 1974 revolution, public enterprises (PEs) had existed in the Ethiopian economy for many years. The rationale and the objective of creating PEs were to stimulate and strengthen the weak private sector of the economy and serve as a solution to the "entrepreneurial gap". During the 1974-1991 period, scientific socialism became the official approach to economic development of Ethiopia. The rationale and the objectives of the PEs were based on the nationalization and control of the major means of production and distribution in the economy. Consequently, more than 150 selected manufacturing, financial establishments and private business concerns were nationalized. In addition, land and extra houses were nationalized.

After May 1991,there has been concern for the privatization of ailing public enterprises. Although the proclamations that permit the dissolution and sale of public enterprises have been issued, so far only few large-scale transfers had taken place, mainly because of lack of domestic private buyers. The local investors could not be able to invest more capital and transfer in new technology to secure the continuity of the transferred enterprises and to sustain the gains from privatization. Moreover, the privatization process in the country is criticized for conjuring up visions of a beleaguered government bureaucracy ceding responsibility of vital public enterprises to unreliable so called "private investors" without really verifying their entrepreneurial skills and business backgrounds. The domestic privates sector, for all practical purpose is in its infancy. It is questionable that, whether the Ethiopian private sector is robust enough to absorb the privatization of state owned enterprises in a successful and sustainable way. The problem of implementation of the privatization program and the absence of developed financial sector do impact on privatization in Ethiopia.

Furthermore, poor institutional conditions like lack of property-rights legislation, weak law enforcement, poor corporate governance, the incidence of corruption, non-

transparent restitution practices, and tardy procedures inhibit the private sector in Ethiopia from realizing its fullest potential in embarking on an irreversible privatization program.

This study is, therefore, designed to answer, among others, the following basic questions:

1. Is pre privatization performance, in terms of technical efficiency and profitability, in the public sector indeed lower than that of post privatization?
2. What are the major institutional and policy variables explaining the opportunities and constraints of privatization in Ethiopia?
3. Does privatization in Ethiopia meet its expectations?

1.3. Objectives of the Study

This study will attempt to analyze the effect of privatization on privatized public enterprises and critically examines prevailing institutional and policy aspects of privatization.

The specific objectives of the study include:

1. To present the legislation, institutional mechanisms, procedures, and processes of the Ethiopian privatization program.
2. To empirically evaluate and compare the performances, in terms of technical efficiency and profitability, of privatized public enterprises in some sectors of the Ethiopian economy.
3. To identify the major institutional and policy variables which explain the opportunities and constraints in the public sector privatization processes in Ethiopia.
4. To propose policy directions and strategies for a better implementation of the privatization processes in Ethiopia.

1.4 Hypotheses of the Study

On the basis of objectives specified above, the following hypotheses of the study are evident. The theoretical literature on privatization and economic efficiency

suggest that privatization creates incentives for efficient resource use. Thus, along with others, the main hypotheses to be tested in this study are:

- a) Interms of technical efficiency and profitability there is a significant difference in the pre and post performance of privatized public enterprises (PEs) in all the sectors in Ethiopia.
- b) The technical efficiency of enterprises is influenced by many other factors other than privatization. These factors include competition, organizational Characteristics and the policy environment conditions. These factors are hypothesized as follows:
 - As the proportion of the state ownership increases at a given time the technical efficiency of a given firm declines. In other words transfer of PEs to private hands has brought significant improvement in the performance of business firms.
 - Domestic competition increases the technical efficiency. However, the market share as a measure to capture the domestic competition is negatively related to the measure of efficiency. The same holds for the squared indices of market share.
 - International competition may increases or decreases the technical efficiency of the privatized firms.
 - Capital intensity i.e. the ratio of real capital stock to real wage bill which captures the level of sunk costs that may inhibit changes and creates barrier to entry and exit may create inefficiency in privatized PEs. In contrary, it can also promote technical efficiency of firms if capital intensive firms embody the most advanced technology.
 - As the size of the firm to be privatized increases the performance of the firm gets declined due to the eventual existence of diseconomies of scale.

These hypotheses are empirically tested using non-parametric DEA method and panel data analysis by employing data from sampled privatized PEs in the analysis section.

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1.5 Significances of the Study:

The findings of this study could have important implications for privatization policy. In the contemporary globalize world, it is important to build competent private sector so as to benefit out of globalization. Thus, the findings of this study would enrich the existing privatization policy of the country. It further contributes to the limited literature on the subject with a view to add to the stock of information to motivate the policy debate aimed at improving performance of the privatization progress in Ethiopia and other developing nations.

1.6 Limitation of the Study

Information on the privatized PEs has proven hard to obtain in Ethiopia for different reasons.

The top most problem is that private business firms are not voluntary to supply information for researchers owing to the absence of the right to have access to information in the country. Because of their small size, information on the performance of firms while they were public was not always collected and kept. The same has proven to be true with regard to the information on the performance of those firms after they have been privatized since over 60% of them are small. As a result, it was necessary to request secondary information from various sources. Furthermore, since data was not kept systematically under one uniform criterion the nature and quality of the data varies. This represents a limitation for the present study and requires that caution be taken when interpreting the results.

1.7. Organization of the Study

The paper is organized in six chapters. General introduction is given in the first chapter. The relevant literature in the field is discussed in the second chapter. In chapter three public enterprises reform and privatization in Ethiopia are presented. In chapter four data and empirical model employed in the study are discussed. Following this, chapter five contains results and discussion. Finally, conclusions and policy implications are presented in the sixth chapter.

CHAPTER TWO

2. LITERATURE REVIEW

In this section, important theoretical and methodological literatures with regard to measures of efficiency like Koopmans (1951), Farrell (1957), Galagedera U.A. Don (2001), and others prominent literatures are going to be reviewed. In addition, the fundamental theories that embody privatization are going to be reviewed. These theories include; contract theory, property theory, and agency theory.

2.1 Technical Efficiency as a Measure of Performance

Efficiency is one of the most important issues in developing economies like that of Ethiopia, where resources are scarce and technological advancement is lagged behind.

Increasing efficiency has both macroeconomic and microeconomic policy implications, for it is engine of economic growth and promotes the productivity and profitability of business units.

Forsund (1980) explained that technical efficiency is a component of productive efficiency and is derived from the production function. Productive efficiency is a component of technical efficiency and allocative or factor price efficiency. Productive efficiency represents the efficient resource input mix for any given output or equivalently, the combination of inputs that for a given more tarry outlay maximizes the level of production.

Koopmans (1951) defined technical efficiency as a feasible input/output vector where it is technologically impossible to increase any output without simultaneously reducing another output. This analogy holds for a reduction in any input or both a reduction in any input and an increase in any output. Farrell (1957) demonstrated that a production unit's 'overall efficiency' is composed of two separate efficiency measures called 'technical efficiency' and 'allocative efficiency'. Farrell measured technical inefficiency as the maximum equi-proportional reduction in all inputs

consistent with equivalent production of observed output. A Farrell-efficient unit however, may not be Koopmans-efficient since even after Farrell efficiency is achieved, there may exist additional slack in individual inputs.

The efficiency measures are described below for the single-output two-input production function. Let x_1 and x_2 denote the two inputs, y the output and $y = f(x_1, x_2)$ the production function. The production function shows the maximum output possible for a given set of inputs, assuming that the firm is technically efficient. Then, assuming that the frontier is characterized by constant returns-to-scale (CRS), it may be written as $1 = f\left(\frac{x_1}{y}, \frac{x_2}{y}\right)$ a unit (output) isoquant. The unit isoquant may be considered as characterizing frontier technology. This is graphically presented as the curve U in Fig.1.

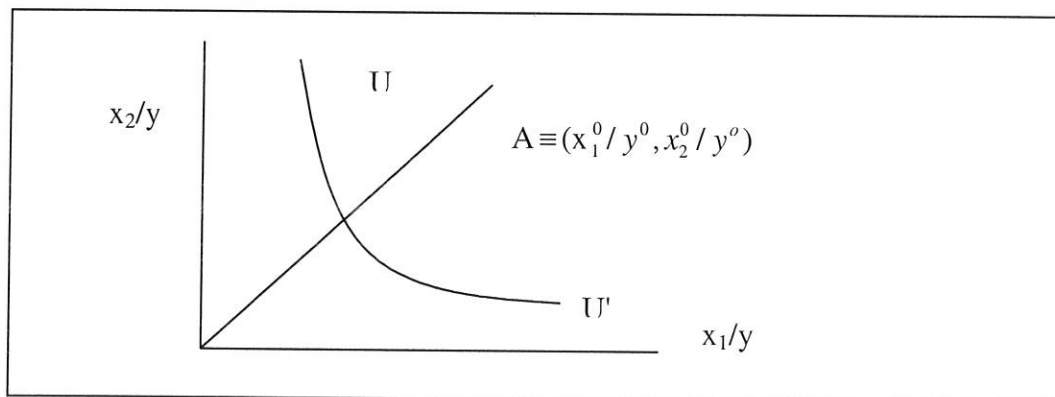
By definition of the production frontier, any observed point; say $A = \left(\frac{x_1^0}{y^0}, \frac{x_2^0}{y^0}\right)$

corresponding to a production unit must lie either on or above the unit isoquant.

Farrell defined the technical efficiency of production unit A as OB/OA .

The technical efficiency of production unit A may be interpreted as the ratio of inputs needed to produce to the inputs actually used to produce with input maintained at the same levels of x_1^0 and x_2^0 . Therefore, technical efficiency will lie between 0 and 1 inclusive. Any point along the line OA will have the same input mix as well. Technical inefficiency results when more output could be produced given the same level of input.

Figure 1. Efficiency frontier



Source: (Megginson, et. al., 2001)

Allocative efficiency is based on cost considerations namely, input prices.

The type of efficiency measured depends on the data availability and appropriate behavioral assumptions (Yin, 1999). When only quantities are available, technical efficiency can be calculated. When both quantities and prices are available, economic efficiency can be calculated and decomposed into technical and allocative components. We do not consider input prices in the models described in this paper and therefore allocative efficiency measurement is not discussed.

2.2 Frontier Approaches to Measure Technical Efficiency

There are two main production frontier estimation methods: parametric, stochastic frontier estimation (SFE), and non-parametric data envelopment analysis (DEA). Each method has its own inherent advantages and disadvantages when used in the estimation of production frontiers and individual production unit efficiency. When choosing between these two techniques, usually there is a trade-off between the structure and flexibility.

The relative superiority of stochastic frontier estimation (SFE) and data envelopment analysis (DEA) methods is not just a theoretical issue but also an empirical issue (Gong and Sickles, 1992). Thus, studies comparing the results of the application of SFE and DEA to the same data set emerged. Some of these studies (contrasted the frontier estimates obtained by the two methods using real-world data and others used simulated data sets. There are advantages associated with working with simulated data, as simulation experiments allow controlling the structure of the underlying technology and the stochastic environment.

The overall findings of these studies are that the efficiency estimates depend, to a large extent, on the choice of the functional form to approximate the underlying production technology and on the measurement methodology employed. The inconsistency of the results with the different techniques makes it imperative that more research is performed to determine the appropriate use of the two measurement methodologies (Cray, 1999).

2.2.1 Parametric Methods

Parametric methods are used to estimate the frontier with an explicit functional form given. The dominant approaches in this category comprise deterministic parametric analysis (DFA) and stochastic frontier estimation (SFE).

As quoted by Forsund (1980) deterministic parametric analysis which as the advantage of being able to express the frontier in a simple mathematical form was proposed by Farrell (1957) by computing a parametric convex hull of the observed input-output ratios. The selection of functional forms being somewhat limited at the time, he recommended the Cobb-Douglas form in the assumption of constant returns to scale. However, he acknowledged the undesirability of imposing a specific (and restrictive) function on the frontier. Deterministic frontier is extremely sensitive to outliers and has the problem of selection of proportion of observations and also contradicts with the concept of frontier as maximum possible output. For these shortcomings DFA is not widely used in measuring technical efficiency.

Parametric methods are used to estimate the frontier with an explicit functional form given. These types of frontier estimation methods fall under either econometric techniques or stochastic frontier estimation (SFE) methods. The SFE method largely depends on the industry under study as well as data availability. The characteristics of industry and sample data impose restrictions on model specification, which in turn affect the structure and flexibility of the model. An advantage of using the SFE method is that it can handle stochastic noise. However, the requirement of a priori (explicit) specification of the production function and assumption of distributions for the error term without regard to the theory are considered as shortcomings in stochastic frontier methods.

2.2.2 Non-Parametric Methods

The methods of estimating the frontier without using an explicit functional form fall under the non-parametric category. One such method is DEA. DEA uses

mathematical programming techniques and derives the deterministic frontier instead of estimating it.

Being a non-parametric technique, DEA does not impose any structural form, thereby avoiding the danger of misspecification of the frontier. Non-parametric approaches, of course, use less information than parametric approaches and hence the results might be less precise. For DEA to be successful, the data should be assumed to be free from statistical noise. Otherwise, when applying DEA to estimate the technical efficiency at production unit level, inefficiency may include statistical noise as well. In DEA, the production frontier is derived based on sample data and therefore its results could be sensitive to outliers.

A desirable property of the DEA approach is its ability to handle multiple outputs quite easily. Virtually all-parametric approaches have been limited to the single output case. This is because the extension of parametric methods for frontier estimation to the multiple output case raises additional theoretical and computational problems (Banker, Conrad and Strauss, 1986).

Variable selection in DEA however, presents problems. The inclusion of many input-output variables is not a viable option in DEA. As the number of variables in the DEA model increases, more and more production units will become efficient. Further, if many variables are used, some of them may be highly correlated and therefore, redundant. On the other hand, when some variables are removed from the DEA model, the production unit efficiency decreases or at most, remains unchanged. There is no standard structured approach to variable selection in DEA. Several methods for variable selection in DEA have been proposed in the literature. For example, Adler and Golany (2001) suggested using principal component analysis to select a number of variables that are representative of the available data set. Norman and Stoker (1991) proposed a step-wise approach in which they start with a few input-output variables and subsequently add variables to the initial set. Selection of new variables depends on the strength of their correlation with the DEA efficiencies computed using the initial variable set. This is continued until a reasonable set of input-output variables is included.

2.2.3 Application of DEA

The seminal paper of Charnes, Cooper and Rhodes (CCR) (1978) introduced the CRS model to measure technical efficiency only. Their model was initially applied to the public sector (Bessent and Bessent, 1980), non-profit institutions (Charnes and Cooper, 1980), and the education sector. Later Banker, Charnes and Cooper (1984) extended the CCR Model to accommodate variable returns to scale (VRS) assumption that enables measurement of scale efficiency. This led to the rapid expansion of the application of DEA to a number of areas, including hospitals, agriculture, and marketing. In the 1990s, DEA became very popular due to significant advances in model development and computational efficiency. See Seiford (1996) for an evolution map that illustrates the growth of DEA in theory and application from 1978 to 1995.

The DEA approach can be problematic when some of the inputs and/or outputs of the decision-making unit (DMU) are stochastic. As quoted in Galagedera (2000) in situations where the input or output variables of the DMUs are assumed to be random variables, a number of studies have resorted to analytical approaches where a random component is added to the efficient frontier (Olesen and Petersen, 1995; Ratliff-Roberts and Morey, 1993; Sengupte, 1987). Environment. From African countries Chirwa (2001) used DEA approach to analyze the impact of privatization on technical efficiency in Malawian manufacturing sector. Now, DEA application is becoming more sophisticated and is used as a versatile and effective tool in empirical analysis.

2.3 Ratio Analysis as a Measure of Performance

In the previous sections technical efficiency is reviewed as a measure of performance of privatized firms. In order to compliment such a measure and to have a clear distinction between pre and post privatization performance of firms under study, it is equally important to look at profitability of these firms in the specified durations. In other words, measuring financial (i.e. profitability) operating (i.e.

technical efficiency) performance of firms before and after privatization would lead to clear policy implications to be practiced for the success of privatization on process. Indicators of the success of privatization activities are based on economic performance emphasizing financial outcomes. The Organization of Economic Cooperation and Development (OECD) used commonly accepted success indicators like profitability (operating income over sales) for the privatization of state owned enterprises (SOEs) in 15 countries and found significant results. (Prizzia, 2001). Garron et.al (2002) on their impact analysis of privatization on firm performance in Bolivia used ratio analysis to measure the change in performance of the privatized firms by comparing certain ratios before and after the transfers. The comparison looks at the direction as well as the significance of the change. They employed the same methodology as that in La. Porta Y. Lopez-de-Silanes (1997), which is based on the analysis of means and medians of different financial ratios that reflect profitability, operating efficiency, and other measures related to the performance of firms. However, in this study profitability ratio along with its mean measure (not its median) is employed as a measure of performance.

2.4 Privatization:

2.4.1 The Conceptual Framework

The term privatization is hardly amenable to categorical, precise definition. It is used to describe an array of actions designed to broaden the scope of private sector market activity, or the assimilation by the public sector of efficiency-enhancing techniques generally employed by the private sector (Adams et.al, 1996). Embodied and implicit in this general description is idea that privatization must necessarily entail the transfer from the public to the private sector of the ownership and control of productive assets, their allocation and pricing and the residual profits flowing from them. The underlying rationale is that consumers will benefit from the introduction or extension of market forces, reflected in the profit motive, rivalry, more choice, greater efficiency and innovation (Hartley and Parker, 1991).

Privatization is generally defined as the transfer of assets and/or service functions from public to private hands. Such broad definition allows for a wide range of transfers to come under the term privatization. For the purposes of this study a narrow definition referring to privatization is adopted as the sale of State Owned Enterprises (SOEs) as long as the private buyers obtain a controlling interest and take control of the management of the firm.

Adams. et .al (1996) argues that the process of privatization characteristically conjures an existing structure of economic imperfections due to state participation, which is inimical to free market development. Thus, the arguments assume the particle of essentially liberating the factors of production nationalized and state-owned from unproductive suffocation. However, the authors also argue whether private ownership is a sole or even crucial determinant of economic performance. This is especially so, given the circumstantial origins of privatization as a prime gospel in the realization of market efficiency.

Privatization as a specify instrument originated under circumstances so diverse and speculative as the gap it was intended to fill (World Bank, 1995). For many countries in Sub Saharan Africa (SSA), faced with severe budgetary constraints, it was conjured that privatization proceeds would generate valuable capital revenue to ease the pressure for expenditure cuts on basic sectors. Also worthy of mention is the helpless imposition of the IMF's Structural Adjustment Programme (SAP) or Enhanced Structural Adjustment Facility (ESAF), with its privatization ramifications, as a condition for debt relief of debt payment rescheduling. It appears unquestionably the case; therefore, that privatization marches to a different drummer, depending on the occasion. Besides, apart from a tenuous ideological relationship to the neo-classical school, few (if any) governments have embraced privatization with such absolutely unshakable belief in its all-redeeming, all salvaging capabilities. It can be said that privatization is in vague in many countries in SSA, not because of any deeply imbedded change in social engineering philosophy, but primarily because of many governments' financial circumstances. For some of the countries, it is a precondition for any kind of loans and/or financial assistance from the World Bank, the IMF, and other donor countries (Ouattara, 1998)

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From the foregoing, it could be said that both the ideological and institutional auspices that heralded the privatization policy indiscriminately universalized its absolute relevance and applicability, which ignoring the relative peculiarities of the political and socio-economic application, the privatization policy has failed to achieve its cure-all- capabilities.

Privatization can be undertaken for many reasons. A number of different objectives like economic, political, firm and consumers oriented are usually mentioned in the literature on privatization. Given the great variety of objectives it seems appropriate, as argued by Sheshinski and López-Calva (1999), that a privatization program should be evaluated on the basis of whether the original objectives of the privatization were achieved or not.

2.4.2 Privatization in Theory

From a theoretical perspective, it is known that incentive and contracting problems create inefficiencies due to public ownership. This is so because managers of state owned enterprises pursue objectives differ from those of private firms and face less monitoring. Not only are the managers' objectives distorted but also the budget constraints they face are also softened.

The soft-budget constraint emerges from the fact that bankruptcy is not a credible threat to public managers, for it is in the contra government's own interest to bail them out in case of financial distress. (Sheshink and Lopez-Calve, 2000).

The idea that private ownership has advantage sever public ownership in terms of being inherently more efficient, as well as that it induces a better public sector financial health is not new. In 1776, Adam smith wrote:

"In every great monarchy in Europe the sale of the crown lands would produce a very large sum of money which, if applied to the payment of the public debts, would deliver from mortgage a much greater revenue than any which those lands have ever afforded to the crown... when the crown lands had become private property, they would, in the course of a few years, become well improved and well cultivated "(Smith, 1776,p. 824 as quoted in Sheshink and Lopez-Calve, 2000)

As cited by Garron et.al (2002), Shleifer A. (1998) discussed that in recent years the developments in the fields of contract theory and property theory have brought researchers' attention to the debate regarding public versus private provision of goods and services. According to contract theory, the government could in principle, draw up a contract which includes all of its requirements so that the contractor will deliver the expected results. According to this view, it is unimportant whether the service is provided by a public or a private entity as compliance of the contract assures that the government's specifications with regards to the outcome are met. However, the question remains open concerning whether it is possible to draw up a "perfect contract" which includes all of the know and unknown contingencies.

Sheshinski and Lopez-Clalva (2000) explicitly discussed the question of why ownership matters. In other words, they tried to explain in which way that the decision making process of a given firm is distorted when the government intervenes. This can be analyzed by looking at the components of the optimization problem: the objective and the constraints, and at how these are affected under different types of ownership structures. Within the microeconomic literature, it has been theoretically established that, under conditions of perfect competition, absence of information problems, and complete contracts, ownership does not matter, i.e., you would observe the same performance of the firms regardless their ownership structure.

The original arguments in favor of public ownership were justified as a solution to the failure of the first of those three conditions: the *market failure* argument. Under non-competitive conditions --characterized by decreasing average costs in the relevant range of demand within the specific market-- the existence of more than one firm is not justified on efficiency grounds. The possibility of exploitation of monopoly power by a private owner created the need for public ownership in those "natural monopoly" sectors. This argument in favor of public ownership was used by important scholars for a long time, as shown by the opinions expressed by Nobel Laureates such as Lewis, Meade, and Allais early in their careers --during the 1940s-- in favor of the nationalization of industries with such characteristics (Shleifer,

1998) The market failure argument, and the perspective that the government takes into consideration social marginal costs, has been called the *social view*.

The formal analysis of information problems and contract incompleteness, and thus the role of incentives in promoting efficiency within the firm, has shown that efficiency losses involved in public ownership are non-negligible.

In many cases, they are higher than the gains that can be obtained by solving a market failure problem. This is especially so as the scope of competition becomes larger when the size of the market increases, the economy is open to international trade, and technology develops. Thus, the weakening of the market failure argument and the evidence in favor of the relevance of the other two conditions --asymmetries in information and market incompleteness--gave rise to a re-thinking of the original views in favor of public ownership.

In relatively competitive markets, the advantages of public ownership were put in doubt. In non-competitive sectors, however, the natural monopoly argument cannot be abandoned as a justification of public ownership without solving one important policy question: how to deal with the possibility of exploitation of market power by private owners. In this regard, the evolution in the theoretical work on regulatory mechanisms and their properties to function as a second-best solution to the above problem showed that there was an alternative to public ownership. Thus, the question was translated into how to efficiently impose a regulatory constraint on the decision-making process of the private firms without deterring innovation and cost-reducing effort.

One of the views in favor of privatization can be characterized by a moving away from the natural monopoly argument --appealing to the regulation literature-- and considering contracting and incentive problems within the firm as the relevant issues to foster efficiency at the microeconomic level. This perspective is termed the *agency view*.

Within the *agency view*, there are two perspectives on the causes of the existence of poor incentives for efficiency. The first one, termed the *managerial* perspective, tells us that monitoring is poorer in publicly owned firms and therefore the incentives for

efficiency are low-powered (Vickers and Yarrow, 1989). The second, the *political* perspective, claims that political interference is what distorts the objectives and the constraints faced by public managers (Shapiro and Willig, 1990), Shleifer and Vishny (1994). Within the managerial view, the impossibility of complete contracts plays a fundamental role in explaining why ownership indeed matters (Williamson (1985), Sgtoappinn and Stiglitz (1987)). According to Williamson (1985), the impossibility of writing complete contracts with the private owners would make SOE to function at least as well as privately owned firms (under the same conditions), whereas "selective intervention" by the government when unforeseen contingencies arise could actually result in a socially preferred outcome. The latter argument relies heavily on the "benevolence" of the government, in the sense that it always has the right social welfare function as an objective to be maximized.

Sheshinski and Lopez-Clalva (2000) further argued that:

Though it is true that important efficiency gains can be achieved through the introduction of competition and the maximization of market contestability via deregulation policies, there are two caveats to this argument. First, the existence of a publicly owned firm as the incumbent, in most cases subsidized, may deter other firms from entering that market, even when it becomes legal to do so. Real competition would be difficult to introduce under those conditions. Competition implies not only free entry in the market, but also freedom to fail, i.e., the existence of free exit. Maintaining public firms in the market, given the arguments discussed above, would make free exit a non-credible commitment for such firms. The argument, however, makes economic sense. Introducing competition, if possible, could be an alternative to privatization whenever the latter is not feasible.

From **macroeconomic** perspective there are few theoretical models that link the reform at the microeconomic level --such as privatization-- with macroeconomic performance. There are, however, country studies that show data on the interaction between privatization transactions and macroeconomic variables. The most important reason why this work has not been done extensively is the difficulty to isolate the effect of privatization from other events that have an influence on aggregate measures. We would expect to observe certain trends, but the causality is weak. Similar evidence for which this caveat applies shall be shown below. The first interaction between privatization and macroeconomics comes from the fact that macro instability, especially large budget deficits, tend to

accelerate privatization. The effect of poor public sector financial health on the willingness to reform and on the political acceptability of such reform results in a clear relation between higher public deficits and faster public sector restructuring. The evidence has been shown in Serven, et.al. (1994) and López-De-Silanes, et.al. (1997), among others.

It is immediately obvious thus to look at the interaction between privatization and public sector financial health. It should be expected that more aggressive privatization programs would lead to lower budget deficits, *ceteris paribus*. Privatization allows the government to raise funds in the short term and eliminates the need of permanent subsidies to previously publicly owned enterprises. The fact that privatization entails necessarily a fiscal gain is incorrect, though under the assumption that firms will perform better and net subsidies will be eliminated -- supported by the micro evidence--that is a plausible scenario. If firms go from deficit to surplus in their operation, the government will not only eliminate subsidies, but also actually start collecting taxes from them. The actual change in the financial position of the government is determined by the difference between foregone dividends and taxes collected from the company. Future higher dividends of the firms under private ownership should also be reflected in the proceeds the government obtains during the sale, corrected for under pricing in the case of public offerings.

The use of the proceeds from privatization determines to a large extent the impact of privatization on public sector's cash flows. If the revenue from the sales is used to reduce public debt, as has been the case in most countries, we would observe lower interest payments and consequently a stronger cash-flow position of the public sector. The common policy advice has been to use the proceeds for once-and-for-all disbursements, especially if those eliminate future negative cash flows, in lieu of using them for permanent expenditure. The effect of privatization on public sector borrowing requirements should be reflected in lower interest rates, which foster investment, growth, and lower inflation.

Another important macroeconomic effect of privatization, especially when it is done through public offerings and mixed sales, is the increase in the level of stock market capitalization and, in general, the development of the financial sector. As shown, for example, in World Bank (1995), SOE's tend to crowd out private investors in the credit market --given that they represent a less risky investment for the banks. Privatization mobilizes resources in the financial sector, reallocating credit to more productive uses.

Finally, from a theoretical perspective, the sale of public sector enterprises would reduce the aggregate level of employment in the short-run, because of the elimination of redundant labor. Unemployment, however, may decrease in the medium and long run as the rate of growth of the economy increases as a result of the efficiency gains at the micro level and the increasing stability at the macro level. However, this has not been tested empirically in a robust manner.

On the other hand, one of the main arguments in favor of privatization is the understanding that public property pursues too many objectives (political, social and economic) which impedes the application of any of the previous theories. As a result, the so-called "Agency View" incorporates the problems of incentives and contracts agreed upon between firms as relevant elements to improve efficiency at the microeconomic level (Sheshinski E. and López-Calva F., 1999).

Within this second view are two viewpoints that help explain the inadequate incentives that result in poorer performance for public as compared to private firms. According to Sheshinski and López-Calva, (2000) these viewpoints are called the political perspective and the business management perspective. The business management perspective argues that the monitoring of managers is imperfect and that public ownership results in there being fewer incentives for improved performance as compared to private firms. The political perspective takes the viewpoint that the lower efficiency of the public enterprises is associated with the presence of multiple objectives, including political as well as economic ones, and constraints that incorporate non-economic considerations such as politically influenced budgets. Thus, privatization can promote efficiency by allowing the

objectives of the enterprise to be focused (reducing the number and ambiguity of the objectives set forth for a public enterprise) and by removing the distortions to the constraints faced by the enterprise.

2.4.3 Methods of Privatization of SOEs

In this section methods i.e. modalities of privatization of state owned enterprises (SOEs), their selection and application is discussed. Methods are techniques for achieving certain of a country's political, social and economic objectives, while overcoming the numerous difficulties associated with the process of effecting transfer of control from public to private sector.

Privatization can be achieved in three general forms: privatization of the ownership, privatization of management, or allowing the private sector to provide the good or vender the service. Privatization of ownership is achieved through sale of shares or assets. Privatization of management is done by leasing an asset to the private sector or by contracting the privates sector to mange an enterprise or to provide a service. Privatization by letting the private sector do it can be accomplished not only by lease contract, but by eliminating the monopoly enjoyed by the SOE or by liquidating the entity.

According to World Bank (1993) two forms have evolved into nine generally applied techniques, of which six are transactional and the rest are non-transactional, with many variations of each.

Transactional

- Public Offering of shares
- Private Placement
- Management /Employee Buy-out (MEBO)
- Sale of assets
- Joint ventures
- Lease and Management

Non - Transactional

- Give -away
- Liquidation
- Demonopolize

Public offering of shares is the sale to the general public through an organized market like a stock exchange of all or part of a going concern. It is more appropriate for larger offerings. It is good for achieving widespread ownership and for gaining public approval. It is judged to be the fairest. Theoretically, everyone has an equal chance to buy.

Private placement is the sale of all or part of the government's share holding in an SOE to a pre-identified entity (S). The sale can be 100% or Partial (in the latter case it becomes a joint venture). Also, the sale can be through competitive bidding or negotiation, to a single person or group, to locals or to foreigners.

Private placement is possibly the most popular method of privatization. In the absence of a functioning stock market, private sale may be the only alternative for the sale of a going concern. It is also applicable where companies are too small for public action to be too limited in appeal to interest many investors. There can be a problem of lack of transparency in these methods.

Management /Employee buyouts are usually management led. A small group of managers buys a controlling share in a company, or management and workers guideline all or most of government's interest. A common procedure is to create a holding company (in the Ethiopian case "Addis Fana") for the management and employees, and have that company buy the SOE. Often there is an allocation for the workforce and participation by a financing agency, it is especially good for privatizing companies that are not easily saleable and the alternative is liquidation. This method provides satisfaction to a sector that is most immediately affected by privatization... labor.

Leases and management contracts - by this means, management is privatized, but not ownership. This methods gives time to work out the best method of transfer or to decide whether indeed to make the transfer.

Sales of assets - in this case, the transaction is the sale of assets, rather than the sale of shares of a going concern. It is usually a private sale under procedures similar to these for private placement. The sale can be effected by competitive bidding or by allocation often it is a prior step to liquidation. The assets are

separated out first and sold, then the government absorbs the losses, and finally, the company is dissolved.

Joint ventures - is also called new private investment in an SOE. In effect, a private company makes an investment in an SOE, thereby diluting the government's share, and takes a management contract. This is sometime called partial privatization.

Give-away - In this method the SOEs are given free to the managers/ workers, or shares in the companies are distributed free to the citizens at large. This method is useful for getting extra life from absolute firms. It solves the problem of validation, and of lack of purchasing power, and allows the process to get started. It can help get rid of a really poor performer and at the same time make some workers happy.

Demonopolize. In this case the state eliminates the monopoly of SOEs and opens them to market competition. Demonopolization has application to services such as the telecommunications.

The choice of a given modality is determined by the **objectives** of privatization concerned and the **condition of the enterprise** to be privatized. It is important to select the method (modality) before announcing that an SOE is to be privatized to avoid becoming locked into a fixed course, hurting and/or fostering speculation.

Lastly,

One method of privatization adopted by Bolivia, which was introduced during its second wave of privatization, called "capitalization" after it had enacted capitalization law in March 1994. (Garrion, 2002)

Capitalization sought the following objectives:

- i) attract private investment on a large scale,
- ii) accelerate job creation, iii) transfer managerial control to the private sector in order to incorporate technological advances and management capacity, and
- iv) create a long-term saving mechanism to directly redistribute the income received from the process among the population, as opposed to using public programs for this end.

Capitalization differed from the way in which SOEs had been privatized previously in various ways. First, the private investor did not acquire the totality of the business

but only 50% of its equity as well as complete managerial control. Second, in contrast to a traditional privatization that involves the sale of the enterprise, no sale was involved and hence the National Treasury did not receive any proceeds from the transfer. What capitalization called for was an injection of capital to the enterprises under consideration. This modality allowed private investors to obtain 50% ownership of an enterprise by committing to invest an amount equal to the market value of the existing enterprise. Thus, through this process the equity of the enterprise doubled, the private investor held 50% of the equity in the capitalized enterprise, and the State held the other 50%. The 50% participation of the State, which reflected the ownership of the pre-capitalized enterprise, was transferred, as specified by the Capitalization Law, in the form of non-transferable shares to newly established private pensions funds.

The capitalization contracts specified the conditions under which the amounts committed by the private investor were to be invested. To make the enterprises more attractive, the commercial debts of the enterprises were transferred to the National Treasury. This modality of transfer, applied to the largest SOEs that traditionally were considered strategic, resulted in some cases in the break down of state monopolies.

2.4.4 Empirical Studies on Privatization

Empirical analysis of privatization has been primarily undertaken with a microeconomic orientation. The individual characteristics of the firms, when they were public, are compared to the new characteristics of the firms after they have been privatized. At the microeconomic level, the empirical evidence strongly supports the view that privatization has positive effects on profitability and efficiency. It also shows that capital expenditures tend to increase after privatization. The evidence on firm-level employment is mixed --though for large firms employment seems to rise after divestiture. When the effect is measured in terms of estimated total surplus in a counterfactual basis, welfare increases in almost all the cases under analysis.

The existing empirical literature can be classified in three broad groups: Case studies, Inter-country studies, and Cross-section studies.

Case Studies:

In a World Bank study, Galal, Jones, Tandon and Vogelsang assess the welfare gains or losses resulting from the privatization, of 12 companies operating mostly in non-competitive markets and in 4 countries: Chile, Malaysia, Mexico and United Kingdom. The authors report net welfare gains in 11 of the 12 cases. Productivity increases in 9 of the 12 cases and remains unchanged in the other 3. Furthermore, their analysis of the allocation of the costs and benefits of adjustment among different economic groups reveals no case in which workers lose overall from privatization. Surprisingly, workers gained in all cases through an increase in welfare. The authors claim that the results provide evidence in support of net welfare gains even when they try to isolate the effect of privatization from the effects of other factors such as changes in market structures and in macroeconomic conditions. The construction of these "counter-factual" which compare the divested firm with itself, but in its undivested form, is an attractive feature of this study. However, as pointed out by the authors, their sample is small and unrepresentative of the universe of privatized firms in developing countries and any generalization of their evidence should be avoided. In contrast, a major study by Megginson, Nash and van Randenborgh compares the pre- and post privatization financial and operating performance of 61 firms from 18 countries (12 industrialized (OECD) and 6 developing (non-OECD) and 32 industries over the 1961-1990 period. The authors present strong evidence that, following privatization, their sample firms become more profitable, increase their real sales and their investment spending and improve their operating efficiency. Furthermore, these companies significantly lower their debt levels and increase dividend payments. Perhaps, more surprisingly and more importantly, they find no evidence that employment levels decline after privatization.

As quoted in Garron B.et.al(2002) Rammanurti(1997) and Dsouza(1998) found that privatization in specific sectors (trains and telecommunications, respectively) increased productivity and reduced the workforce. In addition, Eckel and Singal show that after the privatization of a state enterprise (British Airways), the prices in

this sector fell. Finally, Newberry and Pollitt found that the people who benefit from privatization are the producers and shareholders, while consumers and the government do not benefit.-

Country specific Studies:

A second type of studies focuses on one specific country and analyzes evidence across industries. Among these, the most consistent evidence is that for Mexico (LaPorta and López-De-Silanes (1998)) and Slovenia (Smith, et.al. (1996)). An earlier work by Barberis, et. al. (1996) provided evidence of the effectiveness of privatization of retail shops and small businesses in Russia, following Earle, et. al. (1994) that show similar evidence for small businesses in Central Europe.

In the case of Mexico, LaPorta and López-De-Silanes (1998) analyze the performance of 218 enterprises in 26 different sectors, privatized between 1983 and 1991. One of the most important features of this work is that the authors decompose the changes in profitability into price increases, labor reduction, and productivity gains. Changes in taxes paid by the firms are also measured. The analysis addresses two criticisms usually made to privatization: i) that profitability of the firms increases at the expense of society through price increases, and ii) that profitability comes at the expense of workers, whose labor contracts are less generous, involving important layoffs. The results show that profitability, measured by the ratio of operating income to sales, increased by 24 percentage points.

Cross-Country Studies:

As cited by Boubakri and Coset(1999), D'souza and Megginson (1999) compared the pre- and post-privatization financial and operating performance of 85 companies in 28 countries and 21 industries that were privatized through public share offerings for the period from 1990 through 1996. Out of these 85 companies, 58 of the firms are from 15 industrialized countries and 27 from 13 developing countries. They document significant increases in profitability, output, operating efficiency and dividend payments and significant decreases in leverage ratios for their full sample of firms after privatization. Finally, they concluded:

"(1) Privatization improves the financial and operating performance of newly divested firms, (2) that these improvements are the results of

socially beneficial improvements in productive efficiency and entrepreneurial effort, and (3) that privatization "works" in a wide variety of countries, industries and competitive environments".

On privatization, there is often-cited study of Megginson et.al.(1994) Compared the pre-and post-privatization financial and operating performance of 61 companies from 18 countries and 32 industries during the period 1961to 1990 and found improvements in various parameters of performance after privatization. Frydman et al (1999) find improvements in the performance of the 218 firms in the transition economies, although they emphasize that the improvement is contingent on getting the design of privatization right. LaPorta and Lopez-De-Silanes (1998) document similar improvements following privatization in Mexico.

However, there is an impressive body of literature now that casts doubts on whether privatization yields such improvements in general in less developed countries. Nellis (2000), after reviewing some of the literature, observes that **"the further east one travels, the less likely is one to see rapid or dramatic returns to privatization"**. Others, such as Stiglitz (1998) have suggested the emphasis on privatization in some of the less developed economies might be misplaced. Stiglitz pointed out that the Chinese experience shows that "an economy might achieve more effective growth by focusing first on competition, leaving privatization until later."

More pertinently, perhaps, there is now growing recognition that in the absence of institutional and regulatory capacity- such as law enforcement, strong corporate governance, efficient capital markets-superior private sector performance cannot be taken for granted. A comparison of the relative efficiency and public and private enterprises in an emerging market such as India, should, therefore, merit attention.

However, Pohl, et.al. (1997), working with a sample of 6,300 firms show that the positive effects of privatization on corporate performance are not uniform among different types of firms and performance measures. These authors conclude that one cannot generalize that privatization brings about an improvement in the firms' performance.

To this list of empirical studies it is necessary to add other research, which, in recent years, has placed more emphasis on the nature of firm management. That is, they focused on the extent to which the change in ownership resulting from the privatization process was the key element in explaining the improvement in firm performance. These studies analyze the problem using agency models, where the property structure is represented through different principal-agent arrangements.

They distinguish two types of property: Disperse property, where the relationship owner administrator is the central problem of corporate governance, and concentrated property, where the central problem is that between majority shareholders and minority investors.

These studies follow the work of Schleifer and Vishny (1997) who define the problem of corporate governance as a problem of external financing. A functional system of corporate governance is one where concentrated property exists and promotes profit maximizing behavior, and where a legal framework is also in place to protect suppliers of external financing. In this Vein, et.al (1998) analyzed the differences in the legal framework and found that the historical beginnings of the legal system determined the level of protection provided to investors. Greater legal protection implied a lower need for property concentration, which in turn increased access to external financing and reduced capital costs. Mayer (1998) analyzed two central elements of the agency vision of corporate governance: investment patterns in economies with advanced markets and the mechanisms through which managers are disciplined in companies with poor performance. The author concluded that property and control did not affect the financing sources or the disciplinary methods, but that they did influence other activities within the firm.

Empirical studies from macroeconomic perspective:

There is no strong evidence of the effects of privatization at the macroeconomic level. This is mainly due to the fact that privatization is one among many policies in the structural adjustment policies that makes difficult to evaluate the observed macroeconomic impact to one isolated policy.

In their study Sheshinski and Lopez Calva (2000) found that privatization reduces the burden on public financing. Moreover, they also conclude that...

.... Unemployment, however, shows a very erratic pattern across countries. Aggressive reformers show an increase in the unemployment rate, but so do late and less aggressive reformers. Examples of the former are Argentina and Poland, where the unemployment rate increased by 9 and 8 percentage points, respectively, between 1990 and 1996. Among the latter, we have France and Hungary, where unemployment grew 3.5 and 3%, respectively, during the same period. It is not possible to draw any conclusion in terms of privatization on the overall unemployment rate. Unemployment has shown an increasing trend in recent years in most countries around the world.

... Thus, the evidence tells us that structural reform has in general induced positive changes in key macroeconomic variables. Though not all these positive changes can be attributed to privatization nor its specific contribution has been identified, we can conclude that both the public sector's financial health and a better macroeconomic environment have been fueled by the reduction of SOE activity around the world. This has also led to the creation of a better environment for private investment and competition.

Two important caveats are pertinent at this point from a policy perspective.

In general, privatization proceeds should not be used in current expenditure or subsidies that require a permanent disbursement. Given that they are a once-and-for-all income for the government, they should be applied to disbursements of equal nature. Reduction of public debt, or investment in certain types of infrastructure, is recommended as reasonable alternatives. The proceeds could also be linked to specific budgetary purposes in a transparent way, as was the case in Bolivia in which the income was used to finance the reform of the pension funds.

2.4.5 Studies on Ethiopian Privatization

During the beginning of the reform period in Ethiopia, there were a few descriptive studies, which attempted to analyze the likely effects of privatization in the Ethiopian economy. Except the attempt by Rebeka (2001) no study has evaluated the performance of public and private enterprises after privatization elapsed only four years, which is too early to carry out impact assessment. Moreover, she included a panel of only 25 firms in her study which makes her conclusions doubtful whereas in this study it is timely to embark on a meaningful comparison between the pre and post privatization performance evaluation for it is more than a decade after privatization has started in Ethiopia. In addition a panel of more than 50 firms will be

included to make the study robust enough to represent all the privatized PEs in the country.

During transition years there were flourishing literature written on Ethiopian privatization. Getachew (1994) in his study of "Public Enterprises And Privatization: Review of Experiences" explored experiences of privatization process in developing countries and ex-communist economies and concluded that ...

Privatization is not always a panacea. It is a political process in its own right. The rationale for privatization has to be clearly conceived and articulated and it is not a question of endorsing a fad. If hastily pursued, there is a high risk of intensifying the very problems we want to redress.

Gulilat (1994: P216) in his study pointed out that in Ethiopia, the overriding rationale behind the drive towards privatization should be **comparative advantage and equity**. Expecting privatization to generate high state revenue or to automatically undo the inefficiency of public enterprises would be a mistake. In fact, there is ample room for improving the efficiency of the enterprises without involving the efficiency of the enterprises without involving transfer of ownership. In this respect, the already initiated process of commercialization is a step in the right direction.

He further emphasized the need to address macro and micro policy issues like financing, valuation, supply of foreign exchange, protection, incentives, rationalization and property rights. That could affect the pace and success of privatization in Ethiopia.

Gulilat, (1994) in his attempt to address the issue of privatization of financial institutions in Ethiopia argued for private sector participation in the financial sector should be welcome to the extent that facilitates the smooth implementation of the monetary policy and financial inter mediation thorough the creation of competition here by contributing to the further development of the sector. The participation can be through allowing entry of new private banks (domestic or foreign) into the sector.

Foreign banks could open new branches or start business as joint ventures with local partners.

He also further noted the following essential preconditions to be met before privatization of financial institutions...

- *The design and implementation of macro and monetary policies – to unleash restrained market forces and to provide for the effective implementation of monetary policy and the placement of prudential and supervisory framework:*
- *The drastic restructuring and re-capitalization of not only financial institutions but also other public enterprises.*
- *The elaboration of a privatization strategy with detailed preparation on the modalities and procedures for privatization before embarking on the privatization of financial institutions*

CHAPTER THREE

3. PUBLIC ENTERPRISES REFORM AND PRIVATIZATION IN ETHIOPIA

3.1 An Overview of the Ethiopian Economy and Policy Directives

3.1.1 The Ethiopian Economy

Ethiopia, one of the least developed countries, has a population size of about 72 million, which is estimated to grow at an average of 2.8 percent rate annually. Females constitute approximately 50.2 percent of the total population 60 percent of which is under age 30. Agriculture plays major role in the economy, 50 percent of the GDP, of the country whose per capita income is a little more than US \$100. Although the country produces crops such as wheat, barley, maize, *teff*, chat, and others, coffee remained the main source of foreign exchange earnings. However, the coffee market has been most often in fluctuating conditions. Ethiopia is also known for its largest livestock number in Africa. Thus, production of hides, skins and leather products provided employment besides producing the exportable pulses and oil seeds. The manufacturing sector that comprises large, medium and small enterprises accounted for about 7 percent of the GDP. The manufacturing sector produces leather and leather products, food items, paper, textile, wood and wood products, printing materials, metallic and non-metallic products, and chemicals, among others.

Although Ethiopia's GDP growth rate averaged 6 percent from 1991/92 to 2000/01, this positive trend had been accompanied with wide fluctuations as a result of numerous exogenous shocks of both domestic and external origins. Such shocks hit the poorest and most vulnerable members of society, and the negative effects on consumption and savings are enduring. The drought was the most severe since

1984/85. As a result, cereal production declined by about 6 percent in 2001/02 and by a further 26 percent during 2002/03. As a result, real GDP growth in 2001/02 was revised downwards to 1.2 percent from 5 percent; a sharp deceleration from the 7.7 percent growth rate recorded in 2000/01. GDP shrank by 3.8 percent in 2002/03, from projected level of 6% but a recovery projected at more than 6.7 percent was expected in 2003/04 stimulated by a rise in agricultural output. Because of the drought in 2002, an estimated 13 million people needed food assistance, compared with about 4 to 5 million in need during a normal crop year. Poorly functioning, unstable and incomplete rural markets exacerbated the drought effects. This was particularly true in the remote and drought-prone areas. Bumper harvest in earlier years drove down food prices, with catastrophic effects on farmers' income. Consequently, many farmers could not repay their debt, and did not have the means to purchase and apply modern inputs to their crops.

3.1.2 A Move from EPR to SDPRP

Africa has been continent of plan this is true in particular to Ethiopia. Since the Emperor's First Five Year Plan (1957-1962) up to now, the country has been in continuous move with different policy directives and development plans. Nevertheless, none of the policy directives attempted in Ethiopia led to significant economic development and welfare improvement of the citizens of this country. In this sub section the move from the Economic Policy Reform (EPR) to the recent one-Poverty Reduction Strategic Paper (PRSP) are briefly discussed.

The Economic Policy Reform (EPR) was declared on November 1991, in a document entitled "Ethiopia's Economic Policy During the Transitional Period". In a Policy Framework Paper later developed in accordance with the Economic Policy, the EPR is to have three overlapping phases (World Bank, 1992). The first was an economic stabilization, which mainly focuses on fiscal policy, monetary policy and exchange rate adjustments. This phase includes the provision of social safety net programs to those affected by the war such as military personnel of the previous government, displaced persons from settlement areas and Eritrea, and returnees.

The major element in the first phase of ERP was to jump start the economy, Economic Recovery and Rehabilitation Programme (ERRP), which was launched in 1992. This programme financed by international organizations and donor countries was intended to supply vital raw materials and spare parts to the factories, trucks, and semi durable consumable materials. World Bank supported ERP by funding about US 680 million dollars. (Mekonnen, 1994). The project was supposed to provide a strong impetus to the recovery of the economy by alleviating the acute shortage of both financial and real capital. However, the hard currency intended for such a golden endeavors was abused for it was channeled to unproductive activities.

The second phase of EPR focused on structural reforms (adjustments), which included such measures as the revision of investment and labor laws and the provision of commercial and tax codes. It also involved the elimination of price and distribution controls and the abolition of discrimination against the private sector. (Brook,1993). This phase has been modestly done augmented by ongoing civil service reform in the country. Among policies have been implemented, the revised investment law, which was expected to encourage both local and foreign investment, is promulgated. The excessive bureaucratic processes in implementing the approval of foreign and local investment were reduced to very simplified steps.

The third phase of ERP has been focusing on the macroeconomic stabilization of fiscal policy, monetary policy, external sector, external resource flow, and social safety-net. However, these reform efforts suffered slippage and reversals precisely because of problems related to external resources in flow. (Mekonnen, 1994)

In 2002, the Ethiopian Government committed itself to the Sustainable Development and Poverty Reduction Programme (SDPRP). The fundamental development objectives of the Federal Democratic Republic of Ethiopia (FDRE) set out in the SDPRP were to build a free-market economic system in the country, which will enable the economy to develop rapidly, to end dependence on food aid; and to allow poor people to benefit from economic growth. SDPRP Document

The development strategy is built on four pillars:

- a) Agricultural Development Led Industrialization (ADLI),
- b) Reform of the Justice System and the Civil Service
- c) Decentralization and empowerment, and
- d) Capacity building in public and private sectors.

The overarching objective the government set was to reduce poverty at the same time as maintaining macroeconomic stability.

Measures to improve institutions, such as the reform of the legal system, enforcing contracts, ensuring property rights, maintaining peace and stability, and improving the functioning of public services were seen as making an important contribution to growth and equity.

This program has something good that it has welfare improvement evaluation mechanism so to measure the improvement in the livelihood of the public at large.

Government committed itself to working towards meeting the Millennium Development Goals (MDGs) of 2015. This requires real growth of 5.7% per annum until 2015 to reduce poverty by half from its current level.

3.2 Public Enterprises Reform in Ethiopia

Thousands of SOEs were created in the developing countries between the mid-1960 and the early 1980s. Government created SOEs for the main reasons: they were believed to be appropriate instruments for economic growth, public revenue generation and job creation, particularly in a context in which the private sector was considered to be weak and ineffectual and private investment was inadequate.

In Ethiopia during the military government 'Dergue' the apparent absence of the indigenous private sector has led to the creation of PEs to bridge the "entrepreneurial gap". There were ineffective foreign owned private firms, which were established just for the sake of generating remittance. The government-nationalized majority of them and event brought the collapse of private investment in the country.

Following the issue of the government ownership and control of the means of production proclamation No. 26/1975, the Provisional Administrative Council

(PMAC) introduced a programme of sweeping nationalization of private industry. (Teshome Mulat, 1994). Before the 1974 revolution, PEs had existed in the Ethiopian Economy for many years. The rationale and the objective of creating PEs were to stimulate and strengthen the weak national private sector of the economy and serve as a solution to the “entrepreneurial gap”. During the 1974-1997 period scientific socialism became the official approach to economic development of Ethiopia. The rationale and the objectives of the PEs were based on the nationalization and control of the major means of production, exchange and distribution in the economy. Consequently, more than 150 selected manufacturing and financial establishments and private business concerns were nationalized. In addition, land and extra houses were also nationalized (Eshete T. 1995).

As discussed by Mekonnen, 1995, it is important to note that public enterprises in Ethiopia had been operating in an essentially war economy. They were made to meet economic and socio-political objectives that are usually conflicting. A major part of the problem was not of their own making- ***it was externally imposed - such as foreign exchange constraint.*** Like their counter parts in other developing countries, they did not have the chance to operate in a normal economic environment. This unconducive business environment called for public enterprises reform.

Seeking better institutional arrangements of public enterprises, the Ethiopian government issued public enterprises proclamation No. 25/1992 and this legal framework gave public enterprises some how relatively better autonomy to the public enterprises management.

By the time the new public enterprise law was issued in August 1992, there were 210 state owned industrial establishments in Ethiopia of which 163 were manufacturing enterprises controlled by the Ministry of Industry (MOI). Except for four share companies in which the government was a major shareholder, each establishment under the supervision of the MOI was an enterprise of one of 10 corporations accountable to the ministry. The number of enterprise in a corporation

aged from three under the National Tobacco and Matches Corporation to 37 under the then Ethiopian Food Corporation. An enterprise lacked legal personality, which resided in the corporation of which the enterprise was an operational unit. The management of each enterprise was an operational unit. The management of each enterprise was responsible to that of the parent corporation that in turn was accountable to the Ministry and eventually planning authorities and the council of ministers in a rigid hierarchy of central economic management. Annual and medium term national and sectoral plans formulated at the top of the same hierarchy were the bases of decisions on production, employment and price levels in each enterprise made at the ministerial level and passed down via the corporation as mandatory targets and parameters for enterprise operations. (Brook, 1993)

The public Enterprise Proclamation Number 25 of August 1992 was issued in the framework of the reconstruction of economic policy towards the dismantling of the structure of central planning, drastic reduction of the role of the state in production and trade, promotion of private enterprise in manufacturing industry and agriculture, and the liberalization of domestic market and foreign trade. As part of its implementation, eight of the ten corporations under the MOI were dissolved in November 1992 and each of the 97 enterprise and the remaining corporations accorded legal personality.

The proclamation provides for full authority to each enterprise at the level of the board of management regarding production and employment. The proclamation also frees the enterprise from pay controls restriction on procurement and marketing policy. However, it does not rule out the possibility of ex-factory price controls although its provisions implicitly exclude the generalized price controls of the last two decades. The degree of autonomy enterprises enjoy in this area has been left to government decision in the broader policy areas of market liberalization than enterprise restructuring.

The new law removes capital charge as payment obligation to the treasury out of after tax profits significantly and reduces the rate of transfers to legal reserves and requires the payment of residual surplus to the treasury by a viable annual payment

of dividends to the state. However, the degree of financial autonomy these changes generate depends on the proportion of dividends to retained earnings to be determined at the discretion of the supervisory authority. The decisions of the supervisory authority on the matter are likely to be determined by government budgetary and financial reform policy. The lower is the proportion and more viable it is the same with profitability the greater the enterprises autonomy in relation to the budget since these do not involve major investment decisions or shifts in lines of activity. It does not however, shift ultimate burden of decisions on investment and therefore choice of a long run nature away from management at the enterprise level to the supervisory authority. (Taye, 1993)

All those mentioned public sector reform programs were intentionally done to pave the way to privatization of PEs. In the following section Ethiopian privatization experience is discussed

3.3 Ethiopian Privatization Experience

3.3 .1 Introduction

An efficient private sector helps to achieve the broader goals of economic development and poverty reduction. Privatization is one of the means available for promoting private sector development. Privatization, when correctly conceived and implemented, fosters efficiency, encourages investment and thus new growth and employment, and frees public resources for infrastructure and social programs. In 1994 Ethiopia established the legal framework for privatization and created the agency of privatization to super - vise and coordinate the privatization effort.

The basis for the Ethiopian privatization program is the economic policy launched around the end of 1991. The objective of the economic policy has been to reorient the beleaguered economy in the direction of sustainable development. In the long term, the policy focuses on transforming the highly centralized and planned economic system into a market-oriented one in which the private sector plays a key role. Some of the objectives of the economic policy are redefining the role of the

state in the economy; promoting private investment and enhancing its role in the economic development of the country; and mobilizing external resources. These are implemented through the adoption of various policies of adjustment and economic reform programs.

The economic policy of the Country stresses the need for changing the role of the state in order to create a strong basis for an all-round development of the economy through sustainable and reliable growth. The existing realities necessitated the privatization of public enterprises. To this effect, a privatization program has been designed as a major component of the economic reform program.

The objectives of the program are worked out on the basis of the existing socio-economic environment of the Country. The objectives to be pursued could be sector-specific or enterprise-specific depending on the general development objectives or the conditions of individual enterprises. In general terms, however, the main objectives of the Ethiopian privatization program as put in proclamation 146/1998 can be summarized as follows:

- Achievement of economic efficiency and enhanced enterprise productivity through private sector ownership;
- Increasing government revenue arising from sales proceeds of privatization; and
- Reducing public sector expenditure on inefficient public enterprises thereby enabling the government to increase its investments in the development of infrastructure and basic social services.

Table 3.1. The development of privatization during 1992/93-1998/99

Sector	Public Enterprises	Public Enterprises put for Auction	Enterprise Sold	Transferred to their owners	Closed	That will stay public
Retail trade	170	149	129	16	10	
Hotel and tourism	62	48	15	1		2
Industry	121	43	25	-		15
Agriculture	53	27	9	-		5
Construction	22	7	3	-		1
Transport	12			-		5
Mining	8	4	1	-		3
Banking & insurance	4	-	-	-		4
Other	4	-	-	-		
Total	456	275	181	17	12	36

Source, MEDaC (2001)

Based on the existing realities of the country, the objectives of the program and the nature of the enterprises, the following privatization modalities have been applied so far. The selection of the modalities was influenced by the size and nature of business of the enterprises that were offered for privatization. The majority of the enterprises were small retail trade outlets, small hotels and restaurants, and small-scale manufacturing establishments

3.3.2 Privatization Methods (Modalities) used in Ethiopia

The privatization modalities, methods of privatizations, used to date in Ethiopia include: Asset sale, Employee and Management Buy-Out/MEBO, Lease/Sale, Joint Venture with a strategic Investor, Management contract, complete sales of shares, and Restricted Tender and Negotiated sale. (Privatization Review Feb.2001)

Table 3.2 Privatization Methods Applied in Ethiopia

S/ N	Method of Sale	19 87	19 88	19 89	19 90	19 91	19 92	19 93	19 94	19 95	19 96	Total
1	Sale of Asset	5	83	24	17	8	16	3	2	3	3	164
2	MEBO	-	43	2	-	-	-	-	-	-	-	45
3	Joint Venture	-	-	-	-	1	-	-	-	-	-	1
4	Concession	-	-	1	-	-	-	-	-	-	-	1
5	Negotiated Sale/ Restricted tender	-	-	-	-	-	-	2	1	-	-	3
	Total	5	126	27	17	9	16	5	3	3	3	214

Source: Report by EPA. Note all the years are in E.C

The above table shows the type of modalities used in privatizing state owned enterprises (SOEs). In the early year of privatization programme a few numbers of sales of assets (competitive tender) was carried out. As it can be seen from table 3.8, in terms of number of transactions, the most widely used modalities are Sale of Asset 164(76.6%) and Management Employee Buy Out 45(21%) respectively. In the process of privatizing state owned enterprises, Negotiated Sale or Restricted Tender type of modality was applied on 3 companies (1.4%). The remaining Joint Venture 1(0.5%) and Concession 1(0.5%) were used in the privatization process.

In Ethiopia two modalities namely, asset sale and MEBO are heavily utilized in the privatization process. However, as reviewed in section 2.4.3 of this study World Bank (1993) proposed nine generally applied techniques and the other method used by Bolivia called - **capitalization** are discussed.

From these PaPESA can adopt **public offering of shares**, which enables for achieving widespread ownership and for gaining public approval. The debatable case of party owned enterprises in Ethiopia could also be transferred to the general public through offering of shares if the concerned parties are really willing to bring fair and equitable distribution of wealth among citizens.

From Bolivian case also we can adopt some experiences. Since capitalization allows private investors to obtain 50 percent ownership of an enterprise by committing to

invest an amount equal to the market value of the existing enterprise. Thus, through this process the equity of the enterprise doubled, the private investor held 50 percent of the equity in the capitalized enterprise, and the state held other 50 percent.

3.3.3 Number of Privatization Transactions in Ethiopia

Ethiopian privatization agency was established in 1995 but starting from 1995 up to 2004 Ethiopian privatization agency a decline in the annual numbers of transactions. However, the value of transactions has significantly increased, with attention focusing more and more on larger enterprises.

There is no correlation between the number of transactions and the sales value, related mostly to the size of the enterprise privatized.

Table 3.3. Summary of SOEs Privatized during the Period of 1995 to 2004.

Year of Privatization	Number of Enterprises	Share of (in %)	Total Value (in ETB)	Share (in %)	Average Value
1995	5	2.34	4,602,064.81	0.15	920,412.96
1996	127	59.35	472,835,963.41	15.07	3,723,117.82
1997	27	12.62	1,430,304,175.22	45.58	52,974,228.71
1998	16	7.48	581,855,590.46	18.54	36,365,974.40
1999	9	4.21	235,645,126.99	7.51	26,182,791.89
2000	16	7.48	369,117,181.72	11.76	23,069,823.86
2001	6	2.80	15,345,448.01	0.49	2,557,574.67
2002	2	0.93	9,701,100.00	0.31	4,850,550.00
2003	3	1.40	4,842,100.00	0.15	1,614,033.33
2004	3	1.40	13,863,400.00	0.44	4,621,133.33
Total	214	100	3,138,112,150.62	100	

Source: Unpublished report by EPA

The above table shows the yearly transactions made over the period. The high performance observed in 1988 is due to sale of small size and very low units of companies privatized, such as retails, trade outlets and small hotels and restaurants. Looking at the value of transaction alone, the high value is observed in 1989. This

high value is due to sale of Lege Dembi Gold Mine by concession for about ETB 1.29 billion.

It can be deduced from the table that there is no direct correlation between the number and the sale values of the transaction in each year i.e. 5 transactions in 1987 yielded 4.6 million ETB, 127 transactions in 1988 yielded 472.8 million ETB, 27 transactions in 1989 yielded 1.43 billion ETB etc. The average value of transaction over the period is about Birr 14.6 million.

Table 3.4. Sectoral Distribution of Privatized PEs (1987-1996 EFY)

Description	Manufacturing	Hotels & Tourism	Whole Sale & Retail Shops	Mines	Agriculture	Agro-Industry	Total Number	Total Share in %
Local Investors	23	18	133	-	12	3	189	88
Foreign Investors	7	1	-	1	7	9	25	12
Total	30	19	133	1	19	12	214	100

Source: Unpublished report by EPA

Table 3.4 shows that the sectoral distribution of domestic and foreign investment. As it is clearly viewed from the table, foreign investors are concentrated in manufacturing (industry), agriculture, agro-industry and mines. On the other hand except on mining sector, domestic investors participated in all sectors. Out of 214 transactions performed, 189(88.3%) transactions completed to local investors.

In terms of revenue transactions, the highest share of sales value of transactions to international investors is much higher than the share of sales value of transactions made by local investors. The total sales value shows about 3.14 billion ETB and the share of sales value of foreign investors amounted to 2.56(82 %) billion ETB and

that of the share of the local investors amounted to 579.5(18%) million ETB. From the observed figures it can conclude that the purchasing power of local investors is low and hence the majority of domestic investment is mainly concentrated in retail trade outlets.

Table 3.5. Privatization Transactions (1987-1996 EFY)
Birr 000'

Description	Manufacturing	Hotels & Tourism	Whole Sale & Retail Shops	Mines	Agriculture	Agro-Industry	Total Number	Total Share in %
Local Investors	307.4	27.45	199.82	-	29.78	15.02	579.49	18
Foreign Investors	359.1	8.70	-	1290.43	326.59	573.81	2558.82	82
Total	666.5	36.15	199.82	1290.43	356.37	588.83	3138.11	100

Source: Unpublished report by EPA

3.3.4 Proceedings of Restitutions in Ethiopia

After almost two decades of socialist part rule, during which virtually the entire economy was put in to state hands, Ethiopia has returned to the creation of market system, which is hoped to bring prosperity to the country whose economy is now, by most accounts, in great trouble.

During socialist Ethiopia, most private owned properties had become state owned through confiscation or nationalization of private property without compensation. Due to this fact since the decree of privatization in Ethiopia, popular pressure arose to have their property returned and for the compensation of damage that had been caused to properties of previous owners. The present ruling party then had to determine if, to what extent, and in what form restitution should be made for property that had been taken. There is an attempt to reconstitute the nationalized properties by the current government. However, the restitution mechanism is too slow, non-transparent, and not uniformly done through out the country. The contesting parties have accused government for such practice of restitution. This wish to make

restitution did not stem from a desire to do justice, but from the perceived need to put property into private ownership in general, in order to let a market economy develop.

Ethiopian privatization and public enterprises supervisory Authority investigates claims of restitution of property taken in violation of the relevant proclamations in accordance with proclamation No. 110/1995 and amendment No.193/2000 and the directives issued to implement these proclamations. According to the unpublished article by the Project Office of Restitution, up to date, the authority received **28668** restitution claims since 1996. From these restitution claims **23197** were not accepted for they could not comply with the proclamations and the directives; and the remaining 5,461 cases had to undergo further investigation. Such a huge number of claims were by hoping that all the properties confiscated during the socialist regime would be restituted. However, proclamation No 110/1995 has accepted the proclamations issued during the pervious regime. It defines "property taken in violation of the relevant proclamation" by saying that...

It means any property taken pursuant to directives, written or oral orders given in violation of the Government ownership and control of the means of Production proclamation No.31/1975, Government ownership of Urban lands and Extra Houses Pro. No. 47/75 and the public Ownership of Private Schools Pr. No. 54/1976

Thus "restitution" in the context of proclamation No. 110/1995 refers only to those properties confiscated pursuant to directives written or oral orders given in violation of the "relevant" proclamation.

After investigating their relevancy the authority restituted the following enterprises as shown in Table 3.6

Table 3.6. Restituted Firms by Sector:

No	Sector	No of firms restituted
1	Manufacturing firms, factories hotels and retail enterprises	61
2	Agricultural and construction enterprises	5
3	Service providing enterprises	25
4	Buildings of Institutions	4
5	Residential Doweling	388
6	Others	4
	Total	493

Source: Unpublished report by EPA

From a total of accepted claims by the project office of Restitution again 1618 are also rejected for they were not on jurisdiction of the authority and 3350 cases are still under investigation after years are elapsed without answering for the applicants. The authority has to devise modern ways to address such an important social request to avoid the dissatisfaction of the applicants and not do delay the success of privatization efforts.

The theoretical basis for the concept of restitution is the argument that says... **by making restitution of confiscated property one reaches the aim of privatization more quickly.**

As the larger the group of people who can claim property is, the more socially and technically difficult will be the process of restitution. Conflicts would arise between relatives that would have to be adjudicated by the courts.

Three types of restitutions are identified in literature:

- **"Natural restitution"** - returning exactly the same item of property that had been previously confiscated.
- **Financial restitution** - giving the claimant monetary compensation instead of the item itself.
- **Vouchers** - providing the people entitled to restitution more of the vouchers or coupons which could be exchanged for shares of stocks in large enterprises being privatized.

Which one of the above three types of restitution best suit in the Ethiopian context is beyond the scope of this study and needs other study.

Cepl (2004) argues against natural restitution, since the people who are to receive restituted property, who are in most cases heirs rather than the original owner, often have no connection with the kind of economic activity for which the property was "used" before nationalization. Thus they will often preface selling the property rather than retaining it for their own use which dangers the sustainability of the services provided by the firm under discussion.

In examining all these issues the most important purpose of restitution is to change the Ethiopian economic system as quickly as possible to one in which private property enables the market to function. There is also a psychological purpose connected with this: to overcome people's attitude towards private property and overcome the belief that state ownership of property creates freedom and equality. In order to accomplish these purposes privatization and restitution must occur rapidly and in a less complicated manner as possible, and ***put property into the hands of those who will use it efficiently for production.***

3.3.5 Privatization and the Incidence of Corruption in Ethiopia

The economic aspect of corruption is discussed here on the basis of the incidence of corruption with on going privatization process in Ethiopia. Although only the economic aspect of corruption is presented, in analyzing corruption one should not fail to mention all the important factors that influence it. Before proceeding further, it is important to define the term corruption According to Vittal (2002), corruption is lack of integrity. This could be financial integrity, moral integrity or intellectual integrity. World Bank defines corruption in simple terms as... ***the abuse of public office for private gain.*** Corruption is also said to be anti-economic development. The collapse of the South East Asian economies in mid-1990 showed how even the so-called miraculously growing tiger economies were not immune from the disastrous consequences of corruption. (Vittal, 2002)

The root of corruption arises perhaps from the extreme attachment of people to their families. Nepotism is natural in this situation. Equally important is another psychological factor. Power is never demonstrated in a society unless it is misused. In certain communities being as corrupt as possible and amassing as much wealth as possible is seen as a macho demonstration of "competence". One of the Amharic proverb defines this idea very clearly"... **sishom yalibela, sishar yikochowal...**"

Corruption leads to the favoring of inefficient producer, distorts the allocation of scarce public resources and causes leakage of revenue from government coffers to private hands. Large-scale tax evasion erodes the tax base and in the process helps to generate black money.

The organization of Ethiopia's Federal system on ethnic basis and the differences in the stages of development between the states provides a very strong rationale for corruption. In all the levels of government structure favoring relatives and nepotism are very common. These problems were so acute during the early years of Federalism in Ethiopia.

According to World Bank, corruption undercuts the macroeconomic efficiency, equity and institutional functions of government. Privatization is obviously a very delicate process, with personal and group-related economic, political and social interests being locked in the intense conflict.

In Ethiopia, in the course of privatization, 214 former state owned enterprise worth of more than three billion Birr were transferred and sold to date. Government made a number of privatization decisions ensuring unfairly preferential treatment of individuals politically affiliated with, in favor of party owned enterprises, and related in ethnic terms too. Here, it is worthy to mention that 28 SOEs in number i.e. nearly 15% of privatized enterprises are transferred to a single investor. See the list of buyers in annex 4A&B. Opportunity for corruption primarily depends on privatization methods such as non-availability of clear, transparent, verifiable and verified rules of the game.

In Ethiopia, according to the mass media reports there are a number of individuals under criminal investigation or serving prison sentences resulting from corruption

charges. However, due to very tight and close access to information it is hardly possible to present the situation with quantitative evidence

Owing to ever-growing incidence of corruption in both private and public sectors, the government established the Federal Ethics and Anti corruption Commission to mitigate the mis-use of scarce resources of the country and to combat against injustice in civil service offices. The commission has corruption crimes prevention and research department entitled to study the incidences of corruption in Civil Services Office. In its study, this department disclosed that there are loopholes, which indicate the incidence of corruption on the ongoing privatization proceedings. According to the report by Ethics and Anticorruption Commission, there was no property registration format with all the detailed sections for the proper valuation of assets of PEs to be privatized. Property (asset) valuation is carried out with incomplete and insufficient information (data). Further, there have not been adequate personnel comprising professionals from relevant professions for asset valuation. Much of the problems are occurred during privatization implementation process. Privatization implementation processes include activities like preparation of descriptive profile of enterprises to be privatized, preparation of bid document and advertisement, sale of bid document, signing the sale agreement and delivery of sold enterprises. According to Federal Ethics and Anti Corruption Commission (FEaACC) the following loopholes of privatization are prevalent in the Ethiopian privatization implementation process. These are:

First, bid-documents are prepared not in accordance with the privatization implementation guidelines set The PaPESA has privatization implementation guideline issued in July 1997. According to the sample survey by FEaACC(2005) out of 28 enterprises sold 50 percent of them are sold without due considerations of privatization implementation guideline i.e. the sale was performed with out specifying floor price of the enterprises sold. See annex 2 for list of privatized PEs against privatization implementation guidelines.

Second the Implementation guideline is not complete .Bid documents are evaluated on the basis of the price given by the bidder and the business plan submitted to Pa PESA. However, in the occasions where there are equal prices offered by different

bidders the bid-winner is identified by drawing lottery. This is not convincing for there would not have exactly the same business plans submitted at the same time. Furthermore, when there are more than one bid evaluation criteria, there should be weight attached to each criterion. But this is one of the lacking item in the guideline. Something astonishing with regard to attaching weight to different evaluation criteria's is that, there are weights specified in the document prepared in English but lacking in the Amharic version. For example, Birhan Eyeglass and Kaliti Animal Feed Processing Enterprises were sold without attaching specified weights to criteria's sat.

Third the lack of transparence in the privatization process. One of the transparence indicators in the privatization process is performing pre-privatization studies like asset valuations by free and independent consultancy firms. Recently the agency has started asset valuation by independent and free consultants. This is something good. Although it is common in other countries, in Ethiopia there is no legal procedure and/or guidelines which prohibit participation of party owned enterprises (companies), political leaders (in any form), individuals with government authority and their relatives and partners from buying public enterprises unless other wise public offering of shares. If one closely investigate annex 4 A&B that displays the list of SOEs privatized from 1996 up to 2000, one can trace a sort of trend, which shows inclination towards certain segment of society participating in buying SOEs. Such a detailed investigation is beyond the scope of this study and hence left for forthcoming studies in the same area. In the case of enterprises sold to foreign nationals from 1996 up to July 2000, out of 16 enterprises 50% of them are sold to a single private company from Saudi and the remaining are sold to buyers from Turkey, China, and France. See annex 4A&4B. This indicates that the Ethiopian privatization process failed to attract western investors. This may be due to the failure to meet WTO rule in procurement procedures.

Fourth the imbalances of asset values occurred during the delivery of privatized PEs. Enterprises to be privatized do not quit their production until delivery. Due to this reason, the stock values of inventory often exhibit fluctuations, sometime over stock, sometimes under stock. In addition, due to arrival of goods in transit there would be

imbalances of asset values during delivery. However, the discrepancy is huge and exaggerated which shows that the initial valuations were suspicious. See Table 3.7 in annex 3 for the list of the enterprises sold after readjustment of selling prices.

Such a trend need to be avoided and corrected for it negatively signals information in the forthcoming privatization process and erodes the confidentiality of the process. It also retards the on going privatization in Ethiopia.

Fifth, unlawful practices by management board members.

The authority's management board is the most powerful body to introduce guidelines and when the need arises it can also amend or cancel the existing guidelines. However, rather than doing so it often does against the existing guidelines just by having meeting minutes. Such unlawful procedures could open doors for corruption. In addition to these, by the circular from the former Public Enterprises Supervisory Authority, public enterprises to be privatized were not allowed to employ additional workers, no salary increment, no additional investments and expansions. This sanction makes the PEs incompetent and unattractive to buyers.

The EPA Board of Directors is made up of government officials and cannot be considered neutral. The decision of what enterprises to schedule for privatization, or whether to remove an enterprise from the schedule, rests with people who have vested interests and manipulate the system to benefit themselves, friends and/or family. Observers speculate that people with connections benefit from re-tenders as they are able to buy viable enterprises at rock-bottom prices.

Meanwhile, the government appoints managers to run state-owned enterprises until privatization, creating the opportunity to skim profits, overstates expenses, etc. The privatization process functions, but could gain more revenues for the government if it were more efficiently, and more importantly, independently managed. A proper system of sealed-bid auctions, for example, might eliminate some of the opportunities for collusion, and would speed up the process.

In general, the risks of corruption on ongoing privatization pertaining to public tenders can only be eliminated when all the standard attributes of such tenders are in place, such as making public the sale offer, clear bidding criteria, sealed bids

precluding any leakage of information about competing bids, an independent and non-partisan board to select the best bid.

More attention needs to be given to privatization implementation. Members of the country's parliamentary committee for economic issues have to watch all the proceedings of privatization in Ethiopia. As it is the executive and legislative branches of government that decide on the ways, pace and scope of privatization, it is only natural that privatization related interests are largely mediated by the government. Unless otherwise the government prompts the development of ethical institutions, preferential schemes favoring individuals and affiliated groups would emerge in order to strengthen their economic and political power. This will eventually leads to loss of confidence in the legitimacy of the ongoing privatization process, and ultimately the legitimacy of the state itself.

3.4 Institutional Developments and Privatization in Ethiopia

3.4.1 Property Right Legislation in Ethiopia

Privatization experience in other countries and in the particular context of Ethiopia, indicate that the success of privatization call for various macro and micro economic and socio-political measures. Attempt to treat privatization, in isolation, as a simple act of financial transaction is simply a failure. If privatization is supposed to serve an economic purpose and to impart a concrete impact detailed property right legislation need to be functional in Ethiopia.

The concept of property in any economic system is complex for many reasons. First, in a way, property is not that which is owned. Instead, it is a bundle of rights and relationships, which give rise to entitlements and ownership. What is normally called "property" therefore is really the *object* of property rights. Such rights typically entitle a person to use, enjoy and dispose of the property as he/she sees fit.

Second, property includes a wide range of assets. Some are tangible, such as land and vehicles, while others are intangible, such as corporate stock, intellectual property and the goodwill of a business. Even the right to earn a livelihood is seen as a property interest. Further complicating ownership concepts are the variety of forms of ownership and interests, such as co-ownership, security interests, liens law right to hold another's property until a debt on its paid. And easements legal right of way or similar tight over another's. Moreover, a society's view of property is subject to change over time. The power of the government to regulate private property is called the "police power," which must be exercised consistent with the constitution and applicable laws. [Reznik, 1996]

The issue of property rights is coming to the forefront in countries moving toward a market economy. Such rights are at the heart of the privatization of state assets. However, the process is in jeopardy in countries such as Russia, where the benefits

are not broadly shared with the citizenry. The issuance of stock to insiders of previously state-owned enterprises might fit the letter but certainly not the spirit of privatization. In other countries, meanwhile, some state-owned enterprises have been more ransacked than redistributed. (Reznik, 1996)

There are four major types of property of property rights. These are,

i) Real property ("realty"), which comprises land in general and often the things naturally found in or on land, such as oil, gas, minerals and trees.

ii) Property as Collateral, the secured property is called "collateral."

iii) Corporate Ownership. The ownership interest in an incorporated business can vest in two very different types of property: tangible assets or intangible stock. The stock becomes the property of the stockholder who is free to sell his stock to any buyer unless there is an agreement restricting stock transfer.

iv) Intellectual Property, this includes patents, trademarks and copyrights. It has become a valuable and increasingly prominent asset

To develop effective market oriented economy, in Ethiopia, there should be legislation of property right, law enforcement, government must have institutions and mechanisms to protect private property, and independent judiciary is also essential.

As Gulilat (1994) clearly Pointe out, properly right is probably the most important factor that can affect investment in general. It is unthinkable to promote private investment and privatization without a compatible legal framework on property right. In terms of privatization, it has a serious implication, because the buyer of an enterprise may have wishes to acquire it for an alternate use of the land and building. Therefore, unless it is stipulated in the transaction agreement to continue the existing operation in the interest of the public, the issue of property right should not be a matter that would restrict entry and exit.

In Ethiopia, the question of property right is linked with rationalization, particularly land ownership. Unless land gets its economic value and as allowed to be marketed, the gray area of Center-Region relationship further hinders investment (Gulilat, 1994)

For over three decades now, land redistribution practice in rural Ethiopia has been basically resorted to as an administrative choice of dealing with shortage. However, this is not the appropriate remedial measure with ever-increasing agricultural workforce with eventually leads to smaller and fragmented plots and low level of agricultural productivity. *The legal imperative for such a rationing practice is provided by the state ownership of land, which not only prohibits the development of private land ownership but also resists the functioning all forms of markets. (Abebe, 2000).*

The most important component of ownership reform is privatization of **land and enterprises**, without which it is impossible to implement a real market economy and a democratic society. While most of the economy, including all land and enterprises, were under state or cooperative ownership, it was quite complicated to launch the privatization process. This has caused many problems in the course of ownership reform.

The goal of land reform is to reform the relations based on state land ownership mainly into relations based on private land ownership. It proceeds from the continuity of the rights of former owners and the legally protected rights of present land users. In the same token, the **privatization of dwellings** affects people's living conditions and therefore directly impacts their social conditions. The emergence and expansion of private property brings with it dwelling ownership and has thus produced personal property income.

In Ethiopia, the subject matter of privatization is not clearly defined because there is a considerable amount of uncertainty about the property right legislation. The question of restitution, which led to a flood of claims, mostly for land, which often concerns PEs under the privatization agency. Until all the conflicting claims are settled, privatization cannot be speeded up.

3.4.2. The Role of Non-Bank Financial Institutions in Facilitating Privatization

Ethiopia's financial sector is dominated by commercial banks, principally by the Commercial Bank of Ethiopia. More emphasis needs to be placed on developing nonbank financial institutions, including those offering contractual savings and leasing services, as well as equity and debt markets. These can promote competition in different segments of the market. Ethiopia's young and growing population suggests potential for contractual savings institutions such as pension funds and insurance companies, but this area of finance is underdeveloped and provides few attractive options to potential clients. Capital markets improve risk management, offer opportunities for price discovery, bolster corporate governance, *and create possibilities for privatization and can be stimulated by it* (Aryeetey and Senbet, 1999).

Capital markets have been an important vehicle for privatization in countries such as Kenya. Kenyan Airways and other major utilities have potential for stimulating capital market development, deepening markets by increasing the supply of major listed companies. This is particularly welcome given the thinness of Africa's stock markets. Capital market-based privatization also offers less obvious benefits. These markets can provide a monitoring mechanism to curtail inefficiencies resulting from mismanagement. They increase the likelihood that enterprises will be fairly priced and so can help depoliticize privatization. And privatization through local capital markets allows for local investor participation, diversifying ownership of the economy's resources and contributing to the credibility of privatization. (World Bank, 2000)

Ethiopian financial sector is small and the economy depends on a few primary products. A few large firms may represent a disproportionate share of the bankable demand for credit, and a few major banks may saturate the market, reducing the potential for competition and lowering incentives to develop new clients

CHAPTER FOUR

3. DATA AND THE EMPIRICAL MODEL

With a view to address its objectives, the study follows both a descriptive and analytical approach. The analytical part deploys quantitative techniques; the nonparametric method of Data Envelopment Analysis (DEA) is used to compare the efficiency difference in pre and post performance of privatized PEs, by using output oriented Malmquist and multi step DEAP Version 2.1 software. Meanwhile, certain ratio analysis is employed to measure the changes in the financial performances of the privatized firms by comparing achievements before and after the privatization process. Relevant statistical and econometric analyses are used to measure the impact of privatization on technical efficiency of privatized business firms.

The t-test analysis is used to test the difference in the means before and after privatization by the help of statistical software known as SPSS version 10. Questionnaire was devised to collect data on production, total sales, employment, and to collect qualitative data on organizational changes and in the competitive environments that have occurred following privatization. See the questionnaire in annex 1. However, except few majorities of the buyers of privatized PEs are not voluntary to respond to the questions. The responses of few voluntary new owners are briefly reported in section 5.1.1 of in this study.

4.1 Data Sources and Type:

The estimation of TE requires data on output quantities and input quantities. As used by Chirwa (2001) the study also used the concept of one out put produced by three input -capital, labor and raw materials. In this study it was proposed to use both primary and secondary data. The data employed in this study can be classified in four groups:

- i. Financial data (Sales, operating income, operating expense, and profit)
- ii. Employment data
- iii. Fixed capital and investment

Different sources are consulted in order to get secondary data. **Central statistical Authority (CSA) and Privatization and Public Enterprises Supervisory Authority (PaPESA)** are the major sources of data in this study. The author and assistant researchers to administer the questionnaire to collect some qualitative data from sampled enterprises visited each sampled firm. Regretfully the buyers of majority of the privatized public enterprises were unwillingly to respond to the questions and to participate in the focus group discussion. The reasons behind such a challenge need to be addressed to study the performance evaluation of privatized public enterprises in this country.

It was proposed to include more than twenty-five percent of the total privatized public enterprises in this study. Owing to the above mentioned problems the sample size dwindled to 41. Due to this fact the study is based on the basis of data obtained from secondary sources, CSA and PaPESA. From both CSA and PaPESA information is collected on overall situation of privatized public enterprises prior to the privatization and post privatization conditions.

PaPESA is the government's agency responsible for privatization. As such it maintains records of different privatizations under taken in Ethiopia. According to Pa PESA, from 1995 to 2004, 214 (two hundred and fourteen) public enterprises were transferred to the private sector. While the number of privatized firms seems significant, the majority of them could not be included in this study because they did not satisfy some basic requirements. The criteria applied required that firms:

- had been operating prior to their privatization.
- were transferred as going concerns?
- had to operate a minimum of 3 years after being privatized.
- had individual financial statements available before and after privatization.
- information prior to and after their transfer to the private sector could be obtained.

Out of the 214 firms mentioned, a significant number of them could not be incorporated in the study resulting in a sample of 41 firms. 133 of the privatized PEs consist of small wholesale and retail trade shops and warehouses. After privatization these enterprises are transferred to the management and workers and organized under one enterprise called "Addis Fan". Majority of these firms are too small and they don't have proper records of individual firms. Due to this reason these firms are not entirely included in this study. From the remaining 81 firms more than fifty percent of them (i.e. 41) are included in this study.

Hotels transferred to private hands are not included in this study for they were split into various firms in order to be transferred. Moreover, the current owners did not want to provide information relative to their current situation as private enterprises. For example, some are transferred to hospitals (the case of Blue Nile Ras Hotel, now changed to Betazata Hospital) and others are not functioning for their buyers are under court investigation due to suspect of corruption

The firms included in this study belong to different sectors; such as leather and textile, food, beverage, chemical, wood and metal, and agriculture and. Such classification of industries is very often used in similar studies and I opt to use the same pattern.

Table 4.1 Number of Privatized firms by economic Sector

S.N	Sector	Number before privatization	Number Privatized	Number Included in the study	Reasons for not incorporating
1	Whole sale and Retail trade shops	170	133	0	No information is available
2	Agriculture	53	19	5	<ul style="list-style-type: none"> • Some are not operating after privatization. • In some cases prior privatization information is absent
3	Manufacturing industries and agro-industries	121	42	36	
4	Hotels and tourism	62	19	0	<ul style="list-style-type: none"> • Some are under court investigation. • Some are changed to other business • In many cases no information is available
5	Mining	8	1	0	Not in the list to be studied.

Source: Publication by EPA. The shaded column is extracted from Table 3.1. Yearly information (data) on total value of production, total sales value (which is used as output in this study), total investment on fixed asset, total working capital,

total indirect income (used as proxy for profit in some cases), book value of fixed assets (used as capital), labor, wages and salaries, total value of local and imported inputs (used as raw material), and other relevant information is obtained from CSA and PaPESA. All the nominal variables are deflated by using appropriate deflator indices from CSA to eliminate price effects. For example, investment deflator is used to deflate capital and price deflator-using 1988 EFY as base year is used to deflate other nominal values.

4.1.1 Descriptive Analysis of the Data

In this study performance evaluation of privatized PEs is compared separately in six different industrial sectors instead of lumping together firms in different industrial sectors. The six sector sectors are leather and textile, food, beverage, chemical, metal and wood, and agriculture.

The descriptive statistics for the sampled firms from each sector /sub sectors is presented in table 4.2.

Table 4.2: Descriptive statistics of variables in the sampled firms in each sector.

Variable	Descriptive Statistics	Sub-Sector/Sector					
		Leather & Textiles	Food	Beverage	Chemical	Metal & Wood	Agriculture
Sales ('000)	Mean	599	175.	601	29	85	495
	Std.dev.	827	83	439	33	45	88
	Minimum	72	31	94	23	14	45
	Maximum	2340	298	1167	885.53	132	207
Labor	Mean	389	193	517	106	176	432
	Std.dev.	251	136	353	49	53	266
	Minimum	48	91	197	22	66	120
	Maximum	737	530	1138	148	232	810
Capital ('000)	Mean	163	73	174	59	32	205
	Std.dev.	176	66	12	45	29	166
	Minimum	14	16	43	13	5	42
	Maximum	454	240	323	110	83	478
Raw Mat. ('000)	Mean	324	108	357	100	53	288.25
	Std.dev.	331	64	554	51	27	266.06
	Minimum	46	18	18	17	16	67.77
	Maximum	863	218	158	146	100	746.14
Profit ('000)	Mean	2976	1068	12295	733	560	6845
	Std.dev.	5709	897	13234	500	651	8210
	Minimum	161	30	723	85	74	-739
	Maximum	15880	2624	35194	1294	1534	18451

Source: Author's computation.

Note: All the figures are seven years averages; financial figures are presented in Birr thousands (Br.8.6642=\$1)

As the above table clearly illustrates the data show some variations across all sectors THE LOWEST mean sales is in the metal and wood sub sector, whereas the highest mean sales is in the beverage sector. With regard to employment, the lowest mean employment is in the chemical sub sector while the highest capital utilization is shown in the agriculture sector. This may be due to extensive sizes of state farms and unrestricted access to financial capital during military regime. In the case of raw material utilization the lowest mean amount is in the metal and wood sub sector while the highest mean raw material utilizations exhibited in the beverage sector. When we compare the mean (average) profitability the lowest is in the metal and wood sub sector whereas the highest is in the beverage sub sector.

4.2 The DEA-Empirical Model

The literature suggests several alternative approaches to measuring technical efficiency. In this study, Data Envelopment Analysis (DEA) is employed to calculate technical efficiency (TE) scores. Data Envelopment Analysis is a deterministic and non-parametric approach to efficiency measurement that is mostly used in operational research. It is a linear programming approach measuring the efficiency of a multiple input and multiple output of individual decision-making unit (DMU) that does not require any prior assumption about the form of the cost or production. This is the desired property of DEA, which makes it preferable to other measures of efficiency for it is suitable when one uses data from different sector of the economy with different cost structure and production function

The DEA technique defines an efficiency measure of a production unit by its position relative to the frontier of the best performance established mathematically by the ratio of the weighted sum of outputs to the weighted sum of inputs; see, for example, Norman and Stoker (1991) for a detailed description of the DEA

technique. The estimated frontier of the best performance is referred to as **efficient frontier, or envelopment surface**. The frontier of the best performance characterizes the efficiency of production units and identifies inefficiencies based on known levels of attainment. Thus, a production unit attains one hundred per cent efficiency only when it is not found to be inefficient in using the inputs to generate the output when compared with other relevant production units.

DEA defines the frontier of the most efficient DMUs and measures how far the less efficient units are from the frontier. Chirwa (2001) used the DEA method to analyze the impact of privatization on technical efficiency of the Malawian Manufacturing sector. DEA measures TE under both the constant return to scale (CRTS) and variable returns to scale (VRTS) assumptions.

In parametric models, one specifies an explicit functional form for the frontier and econometrically estimates the parameters using sample for inputs and outputs. Hence the validity of the derived technical efficiency measures depends critically on the appropriateness of the functional form specified.

In contrast, the method of DEA introduced by Charnes, Cooper and Rhodes (1978) and further generalized by Banker, Charnes (here after, BCC) (1984) provides a non-parametric alternative to parametric frontier production function analysis. (Mohan and Ray, 2003)

In DEA, one makes only a few fairly weak assumptions about the underlying production technology. In particular, no functional specification is necessary. Based on these assumptions a production frontier is empirically constructed using mathematical programming methods from observed input-output data of sample firms. Efficiency of firms is then measured in terms of how far they are from the frontier. The mathematical formulations (specifications) are discussed below.

Consider an industry producing a scalar output, "y", from bundles of "m" inputs (x_1, x_2, \dots, x_m) . Let (x^j, y^j) be the observed input-output bundle of firm j ($j = 1, 2, \dots, n$). The technology is defined by the production possibility set

$T = \{(x, y) : y \text{ can be produced from } x\}$.

An input-output combination (x^0, y^0) is feasible if and only if $(x^0, y^0) \in T$.

The following assumptions hold true about the technology:

- All observed input-output combinations are feasible. Thus, $(x^j, y^j) \in T$ ($j = 1, 2, \dots, n$).
- The production possibility set, T , is convex. Hence, if $(x^1, y^1) \in T$ and $(x^2, y^2) \in T$, Then $(\lambda x^1 + (1 - \lambda)x^2, \lambda y^1 + (1 - \lambda)y^2) \in T$, $0 \leq \lambda \leq 1$. In other words, weighted averages of feasible input-output combinations are also feasible.
- Inputs are freely disposable. Hence, if $(x^0, y^0) \in T$ and $x^1 \geq x^0$, then $(x^1, y^0) \in T$. This rules out negative marginal productivity of inputs.
- Output is freely disposable. Hence, if $(x^0, y^0) \in T$ and $y^1 \geq y^0$, then $(x^0, y^1) \in T$.

Varian (1984) pointed out that the smallest set satisfying assumptions (1)-(4) is;

$$S = \{(x, y) : x \geq \sum_{j=1}^n \lambda_j x^j; y \leq \sum_{j=1}^n \lambda_j y^j; \sum_{j=1}^n \lambda_j = 1; \lambda_j \geq 0; j = 1, 2, \dots, n\}.$$

Let $\bar{x} = \sum_{j=1}^n \lambda_j x^j, \bar{y} = \sum_{j=1}^n \lambda_j y^j; \sum_{j=1}^n \lambda_j = 1; \lambda_j \geq 0$. By virtue of convexity $\{\bar{x}, \bar{y}\}$ is feasible.

Then, for any $x \geq \{\bar{x}, \bar{y}\}$ is feasible. Finally, for any $y \leq \bar{y}$, (x, y) is also feasible.

Technical efficiency of any firm producing output y^0 from input x^0 $1/\theta$, where

$$\theta = \max \theta : (x^0, \theta y^0) \in S$$

Note that this is an output-oriented measure of efficiency. Alternatively, one could use an input-oriented approach, where efficiency lies in conserving inputs while producing the observed output quantity. To compute output-oriented efficiency one solves the following linear programming problem:

$$\begin{aligned} & \text{Max } \phi_1 \\ & \text{s.t. } \sum_{n=1}^N \lambda_n x_{nj} \leq x_{ij} \end{aligned}$$

$$\sum_{n=1}^N \lambda_n y_n \geq \phi_t y_1$$

$$\sum_{n=1}^N \lambda_n = 1$$

$$\lambda_n \geq 0$$

This BCC model allows increasing, constant, or diminishing returns to scale along the frontier of the production possibility set at different levels of inputs. Input-based and output-based measures of technical inefficiency provide the same value under CRTS but are unequal when VRTS is assumed. Given that linear programming cannot suffer from such statistical problems as simultaneous equation bias, the choice of an appropriate orientation is not as crucial as it is in the econometric estimation case. Essentially one should select an orientation according to which quantities (inputs or outputs) the managers have most control over. The output-oriented models are very similar to their input-oriented counterparts and one point that should be stressed is that the output- and input-oriented models will estimate exactly the same set of DMU's as being efficient. It is only efficiency measures associated with the inefficient DMU's that may differ between the two methods. (Collie, 1996)

The Regression Model:

For the econometric analysis the efficiency scores are calculated by applying multi-stage DEA on the pooled panel data of each sector. This assumes that the reference technology is time invariant. This assumption is relevant for the fact that the nominal variables in this study are deflated by constant 1988 EFY base year indices. Pooling cross-section and time series data has the advantage of increasing the number of observations especially in cases where the number of firms in the industry is small. After obtaining efficiency scores from multi-stage DEA, the determinants of technical efficiency are analyzed by using panel data analysis.

Using regression model it is tried to identify the determinants of the improvement in the performance of the transferred firms. In particular, it is tried to establish whether

the transfer of SOEs to the private sector is a significant factor in explaining the observed improvements in the firms once they were managed privately. In order to do this the pooled observations of the 41 enterprises in the respective sectors is computed from the sample and performed a panel data analysis. According to Garron et.al. (2002) Using panel data has various advantages such as:

1. *It allows for the control of individual heterogeneity. Transferred firms are obviously different and those differences are captured by the panel data.*
2. *It allows for a greater number of degrees of freedom and for the capture of more information from the data, with less variability and less co linearity.*
3. *It allows for a better identification and measurement of effects that are not always detectable in time series or cross-section analysis.*
4. *It allows for the construction and testing of the behavior of more complicated models than purely time series or cross-section analysis.*
5. *It allows for the bias in the aggregation of firms to be eliminated, since it is based in a micro level analysis.*

For the econometric analysis the random effects model is employed as specified below:

$$TE_{it} = \alpha + X_{it} \beta + V_{it} \quad i= 1, N_{it} = 1, \dots, T \dots \dots \dots (1)$$

$$V_{it} = \mu_i + V_{it} \dots \dots \dots (2)$$

Where the subscripts t and i denote the time series and cross-section dimensions respectively.

In what follows, the dependent variable "TE" refers to the indicator of technical efficiency. " α " is a scalar and " X " is a vector of explanatory variables, the variables included in the regression model are:

PR= a dummy variable for privatization. PR ="1"for post privatization years and

PR ="0"for pre privatization years on which firm i operated.

MS=market share which captures domestic competition.

SMS=squared market share to capture curvilinear relationship between technical efficiency and competition (i.e. market share).

IMS= Import share to capture international competition.

KI=Capital intensity.

SI= a dummy variable for size of firm i . SI = "1" if the firm is large, SI = "0" if it is medium.

μ_i reflects the random effects and is assumed independently and identically distributed IID $(0, \sigma^2_\mu)$, it is also assumed independently and identically distributed IID $(0, \sigma^2_\epsilon)$. Furthermore, μ_i is assumed to be independent from V_{it} and the X_{it} are independent of μ_i and v_{it} for all i and t . (Hsiao, 1986)

The specification of a random effects model is appropriate when the group of firms have been selected randomly from a large population. In what follows we apply this model is applied to draw inferences about the transfer of SOEs to the private sector in Ethiopia based on a sample of N=41 firms out of 214 transferred firms.

In addition a FGLS (Feasible Generalized Least Squares) was applied under a random effects model assuming that the variance-covariance matrix is unknown. The FGLS method allows for the correction of some problems present in the data such as heterocedasticity and autocorrelation. Technical efficiency is explained by factors that included privatization, competition, organizational characteristics and policy environments.

If privatization enhances performance, we expect a positive and significant relationship between technical efficiency and dummy variable PR.

Chriwa (2001) used the Herfindahl Hirshcman index (HHI) as measure to capture the extent of domestic completion, however, in this study market share of individual firm (concentration ratio) [i.e. firm's yearly total sales divided by total annual sales of the entire sampled firms in the given sector] is used. A value close to zero would indicate that the largest X firms supply only a small share of the market: 100 percent could indicate a single supplier. The concentration ratio is popular because of its limited data requirements. (Ferguson and Ferguson, 1994). The higher the market share of a given firm in a given industry the higher will be its monopoly power which, hampers competitiveness among the firms. Thus the expected sign for both MS and SMS to be negatively related to the measure of efficiency.

The other measure of competition is import share (IMS) that capture the role of international competition. Inflow of imports exert competitive pressure on domestic

firms that intern should create incentives for domestic firms to operate efficiently. However, as cited by Chirwa (2001) it is noted that high import ratios could actually indicate that the industry is inefficient relative to firms abroad. It also, note that foreign competition drives out inefficient firms if there is excess market share which foreign firms are able to fill, points to the absolute inefficiency of production by domestic firms. Therefore either a positive or negative relationship between efficiency and import shares is expected.

Likewise a negative or positive relationship between capital intensity (KI) and technical efficiency is expected. If KI is large enough to inhabit changes and create barriers to entry and exit the relation would be negative while if capital intensive firms embody the most advanced technology the relationship between TE and KI would be positive explained in terms of the employment are size of the firms (SI) has negative relationship with TE after marginal productivity gets declined. Thus as the size of the firm gets longer and larger the efficiency of firms gets lower and lower. This fact can be also related with the existence of diseconomies of scale as the size the firm gets larger and larger on the basis of the above explanations Table 4.2 summarizes definition of the variables in the regression model and their expected signs

Table 4. 3 Definitions of the variables and Expected signs

Variable Code	Description	Expected Signs
TE	Technical efficiency score	Dependent variable
PRIV	A dummy variable for privatization. Takes value "1"for periods after privatization,"0" otherwise. It captures the over all effect of privatization on all firm.	Positive (+)
MS	Market share as a measure to capture the extent of domestic competition. It is the quotient shares (sales) of all the firm in the industry.	Negative (-)
SMS	Squared indices of market concentration (market share) to model curvilinear relation ship.	Negative (-)
IMS	Import shares of firms under discussion, to capture the role of international competition. It is the ratio of imports of products for the industry to total domestic supply of products in that industry.	-ve or +ve
KINT	Capital intensity i.e. the ratio of real capital stock to real wage bill. Included to capture the level of sunk costs that may inhibit changes and cerates barrier to entry and exit.	-ve or +ve
SI	A dummy variable for firms size. Takes value "1"if the firms is large "0" if the firm is medium As the size of a given firm shifts from medium to larger its technical efficiency became lower and lower owing to the prevalence of diseconomies of scale as firm size gets larger and larger. However if the point where diseconomies of sale is not reached in the production process the sign of the variable can be positive	-ve or -ve

CHAPTER FIVE

5. DISCUSSIONS, EMPIRICAL ANALYSIS AND INTERPRETATION

5.1 DISCUSSIONS

5.1.1. Major Institutional and Policy Related Impediments of Privatization in Ethiopia.

According to the data analysis in this study privatization effort in Ethiopia failed to bring improvement in efficiency and profitability of public enterprise transferred to private ownership. It was planned to cure the disease of excessive inefficiency and loss making in the publicly owned enterprises through privatization. However, on the basis of findings of this study the cure is becoming worse than the disease. Many institutional and policy related constraints would explain the problems encountered by the Ethiopian Privatization process. All the problems faced in the privatization process in Ethiopia can be ground in to two categories:

i) **Attitudinal Problems:**

The fundamental reasons for the attitudinal problems faced by Ethiopian privatization process have been the implementation of the process under unchanged property right legislation and legal frameworks from the previous regime. The second point is that the wider misconceptions regarding private ownership of sold public enterprise and mistreatment of management and employees of privatized public enterprise by the new owners of previous publicly owned enterprise. This bad sentiment created negative attitude towards privatization among the general public.

Even though, the Government declared the policy direction of the country on the basis of market economy, there has not been adequate policy coordination among policy implementing institutions in the country. This poor harmonization of polices hampered the pace and success of privatization in Ethiopia.

ii) **Implementation problems:**

The following are the, most serious problems encountered during the implementation process of privatization in Ethiopia.

- ❖ The transfer of public enterprise to private hands with all the unsettled chronic problems like debts, and land and property ownership in the others.
- ❖ Very much restricted access to have information regarding the existing conditions of public enterprise to provide relevant data regarding the operation of the public enterprise to the private sector. The managers of state enterprises were described as having presented incomplete information for asset valuation creating poorly identified lists of properties; failing to make timely comments on studies conducted, having out-of-date title deeds, holding plots of land illegally, not evicting squatters, and not dealing with people who refuses to leave the compound of the enterprises after they have retired; failing to renew ownership titles and the number plates of vehicles, keeping properties that are no longer of use: and failing to deliver timely audit reports and maintaining tax arrears.
- ❖ After the sale of public enterprise, ownership rights are not transferred timely. This hinders the buyers to have loan from the banks using the enterprises purchased as a collateral. Eventually, such a problem imposes a significant problem in creating and strengthening the private sector development.
- ❖ Rent seeking behavior of new owners. After acquiring the enterprise (firm) from the privatization agency, the new owners often discontinue the previous lines of production and most often they convert the factory or the enterprise they bought into a warehouse or just to acquire the plot on which the factory or enterprise stood.
- ❖ Lack of transparency in the privatization process.
- ❖ Post privatization follow-up and monitoring work that should be carried out, as strictly explained in the proclamation (Proclamation No. 146/1998. Article 14) were not properly implemented yet.

5.1.2. Impact of Privatization on Government Financial Flows

In theory, privatization should benefit the government's finances. An improvement in public finances could occur either by raising revenue from the sales of assets and shares or by reducing the need for operating subsidies and investment capital. It is expected that the proceeds of the privatization transactions will be of some substance and will come in addition to regular government revenue. More importantly, the new owners or managers are supposed to bring in capital investment, technology and know-how. The improved enterprise will be the source of increased taxation product, directly on new profits and indirectly through the improved turnover and salary distribution. By comparing sales value as percentage of government revenue for some selected African countries. Makalou (1996) witnessed that in terms of sales value as percentage of government revenue, Zambia, Mozambique and Uganda, Cape Verde and Ghana seem to be more successful in their privatization process. In the Makalou's analysis Ethiopia was included and the average annual sales value of privatization transactions as percent of total revenue was only 3.3 percent. This percentage of privatization proceeds to total revenue, is among the lowest performing African countries which implies in the mentioned year the revenue generated from privatization had not had a significant impact on government finance

Another way to give an idea of the impact of privatization on Government finances is to look at the sales values as percentage of GDP.

Makalou (1996) again showed that in percentage of sales value to GDP, Mozambique, Ghana, Cape Verde, the Gambia and Benin were, for the countries with available data, the top five in Africa by the end of 1996.

The cross-country comparison under the two methods of sales value as percent of either the Government revenue or the country GDP, suggests that privatization in Africa, up to early 1997, had no significant impact on Government finances.

When we consider the case of Ethiopia, we can depict the trend of fiscal deficit just after the start of privatization in Ethiopia in the following table.

Table 5.1. The trend of fiscal deficit in the years of privatization Ethiopia

Fiscal Year	Total Revenue	Total Expenditure	Privatization Proceeds	Fiscal Balance	Percent of proceed to Total Revenue
1995/96	6966.2	41689.4	472.84	-34723.2	6.8%
1996/97	7877.5	45,319.2	1,430.30	-37441.7	18.2%
1997/98	8400.2	49,064.6	851.86	-40664.4	6.9%
1998/99	9453.2	55,645.2	235.65	-46192.0	2.5%
1999/00	10147.9	59,821.0	369.12	-49673.1	3.64%
2001/02	10577.0	60,146.8	15.35	-49587.8	0.145%
2002/03	10478.0	60,603.8	9.70	-50125.8	0.093%

Source: NBE Quarterly Bulletin 18 (1) and author's computations

Note: The revenue data does not include external grants. And all the numbers are in millions of Birr.

The trend of fiscal deficit just after the start of privatization in Ethiopia is depicted in the above table. The trend gets higher and higher in the year of privatization implying that the revenue generated from privatization is almost insignificant in narrowing the range of fiscal deficit in Ethiopia. However this may be due to excessive expenditure on infrastructures in the years of privatization. Percentage share of privatization proceeds to total revenue of the country for the years 1995/96 - 2001/02 were on average below 6% percent. This fact reveals that privatization up to recent years, have not brought significant impact on government financial flows in Ethiopia, as the same concussion holds in other countries of Africa. Thus, the prime objective privatization in Ethiopia revenue generation for financing development activities undertaken by the government does not realized yet.

5.1.3. Impact of Privatization on Employment in Ethiopia

Facts have demonstrated that privatization in some cases has improved the levels of production and profits, after additional investment, and changes in management and labor practices. Nevertheless the fear of job losses is the stumbling block to privatization. (Makalou, 1996).

In Ethiopia there are undefined number of retrenched workers from the public enterprises since the start of privatization. Before the implementation of privatization program there was strong debate regarding the fate of employees in the enterprises to be privatized. Privatization Agency to address the concern to employees sold SOEs to the management and workers of the enterprise to be privatized. All the wholesale and retail trade enterprises are privatized through transfer of ownership from government to the management and workers of the enterprises to be privatized. The workers in these enterprises had benefited from the safety net scheme provided by the government and among 4364 workers of the previous whole sale and retail trade corporation employees 1454 of them formed their own share company "Addis Fana". And they bought 40 shops and warehouse, and 4 hotels worth of 46.56 million Birr. The government tried to secure the rights of employees as clearly put in the legislations formulated for the implementation of privatization in the country. For example section 12 of proclamation No. 146/1998 states that...

- *employees pension coverage existing before the privatization of any enterprise shall continue without any interruption.*
- *the new owner of the enterprise shall respect employer's obligations imposed by the appropriate laws with regard to employee's pension.*

Furthermore, proclamation No 377/96 states that the new owner of the enterprise shall accept the employees of the enterprise to be privatized without termination of their contracts. In addition, employees' have their representatives in all the steps of privatization process and in the management board of privatization. According to estimation by Pa PESA until the end of 2004 the following summary report is evident regarding the employees of 214 public enterprises privatized yet.

Table 5.2 Summary reports of employees in the privatized PEs:

S.No	Description	Amount
1	Estimated number of employees before privatization---	14,500
2	Number of employees transferred to new owner of privatized enterprises	12,974
3	Currently existing employees with the privatized enterprise	11,558
4	Resigned	406
5	Fired by disciplinary actions	243
6	Deceased	184
7	Retired	199
8	Fired due to restructure	14,91
9	New employees	1107

Source: Unpublished report by Pa PESA (Amharic Version).

See also annex.5 for the detail of employee's condition in some selected 35 privatized PEs.

When we look at the figures above and the statements in the proclamations, privatization process in Ethiopia with regard to employment seems painless. However, the fate of around 60,000 permanent employees (World Bank, 1990) in the state farms of the country and other divestitued former PEs had been miserable for those who have no social-security system to fall back on.

5.1.4. Impact of Privatization on Investment in Ethiopia:

According to Proclamation No.146/1988, the provisions of the relevant investment laws governing the granting of incentives for expansion and upgrading of existing enterprises as well as entry requirements and guarantees applicable to foreign national and foreign investors shall also be applicable to investors participating in the

privatization of enterprises. Despite the provisions in the Ethiopian privatization, the number and diversity of foreign investors attracted by the process is very much limited. As shown in annex 4-B enterprises sold to foreign nationals from 1996 up to July 2000 are 16 in number. Only one western investor involved and the remaining are investors from Asia [Saudi, Yemen, China] which makes the technology transfer very much limited.

Foreign investors can participate in privatization transactions either through foreign direct investment (FDI) or portfolio equity investment. Portfolio equity investment is a purely financial investment, with the investors' share not exceeding 10 percent. A foreign direct investment, by contrast, is typically interested in strategic ownership and intends to gain substantial influence over the companies operations. (Sader, 1995)

Participation by foreign investors in privatization program is politically sensitive. In most countries, large public enterprises are often considered to be national treasures, and plans to privatize them have often aroused domestic political opposition. However, the involvement of foreigners may bring a number of benefits. First it raise the degree of competition in the sell-off process by increasing the number of bidders in that the government can obtain a high price for the SOE. Secondly foreign investors are an important source of investment finance and management skills that the company's future prospects are enhanced.

In Ethiopia, privatization played only a minor role in relation to total FDI inflows particularly from Western countries. The reason may be due to poor infrastructure, poor communications, or weak transportation system and weak banking facilities. Privatizing such infrastructure services can therefore have a strong effect by attracting additional investments in the expectation of improved economic environment.

In Ethiopia, according to report by PaPESA, since the beginning of privatization, only slightly higher than half billion new investment is made on privatized SOEs. Much effort has to be exerted to attract FDI to the Country.

5.2. Analysis and Interpretation of Empirical Results

5.2.1. T- test for Mean Comparison

5.2.1.1. Measures of Technical Efficiency Difference

By employing output oriented Malmquist DEA, VRTS technical efficiency is computed for each firm with reference to a frontier constructed from the input- output data of firms from the same sector in any one particular year. This is obtained for the data during pre and post privatization years.

The technical efficiency results obtained for the pre and post privatization years in each of the six sector/sub-sectors are presented in tables 5.3 - 5.8

Table 5.3: Technical efficiency scores in leather and textile sub-sector.

Pre		Post	
Year	G.M	Year	G.M
1 st	0.856	1 st	0.909
2 nd	0.869	2 nd	0.971
3 rd	0.917	3 rd	0.440
-	-	4 th	0.792
Average	0.8807		0.7733

Table 5.5: Technical efficiency scores in beverage sub-sector.

Pre		Post	
Year	G.M	Year	G.M
1 st	0.942	1 st	0.949
2 nd	0.959	2 nd	0.930
3 rd	0.960	3 rd	.0912
-	-	4 th	0.946
Average	0.9537		0.9303

Table 5.7: Technical efficiency scores in metal and wood sub-sector.

Pre		Post	
Year	G.M	Year	G.M
1 st	0.924	1 st	0.925
2 nd	0.951	2 nd	0.816
3 rd	0.923	3 rd	0.926
-	-	4 th	0.912
Average	0.9327		0.8890

Source: Tables 5.3-5.8 are results from DEAP version 2.1 outputs oriented Malmquist DEA.

In Pre-Privatization years 1st, 2nd and 3rd refers for year 1996, 1997, and 1998 respectively. In post-privatization years.

1st, 2nd, 3rd and 4th refers to 1999, 2000, 2001, and 2002 respectively.

Table 5.4: Technical efficiency scores in food processing sub-sector.

Pre		Post	
Year	G.M	Year	G.M
1 st	0.890	1 st	0.941
2 nd	0.891	2 nd	0.945
3 rd	0.790	3 rd	0.729
-	-	4 th	0.764
Average	0.8627	-	0.8603

Table 5.6: Technical efficiency scores in chemical sub-sector.

Pre		Post	
Year	G.M	Year	G.M
1 st	0.810	1 st	0.856
2 nd	0.979	2 nd	0.665
3 rd	0.937	3 rd	0.494
-	-	4 th	0.618
Average	0.9087		0.6717

Table 5.8: Technical efficiency scores in agriculture sector.

Pre		Post	
Year	G.M	Year	G.M
1 st	0.719	1 st	0.830
2 nd	0.777	2 nd	0.481
3 rd	0.674	3 rd	0.685
Average	0.7233		0.6653

Note: G.M in the above tables refers to the mean that Malmquist index averages are geometric means.

The averages for technical efficiency in each sub-sector /sector and paired samples test for differences in means are summarized in Table 5.9.

Table 5.9. Paired Samples Statistics for Technical Efficiency Results in Pre and Post Years of Privatization:

S.No	Sub-sector/Sector	Geometric Mean		T-statistics
		Post	Pre	
1	Leather &Textile	0.7733	0.8807	0.579
2	Food	0.8627	0.8603	0.069
3	Beverage	0.9303	0.9537	-1.447
4	Chemical	0.717	0.987	-1.620
5	Metal & Wood	0.8890	0.9327	-0.956
6	Agriculture	0.6653	0.7233	-474
7	All the Sampled Firms	0.7987	0.8766	-1.824***

Source: Own computation *** Significant at the 10% level

Note: Technical efficiency scores are averages of the first three years of pre-Privatization and the first four years of post-privatization.

All the means of the sectors analyzed are insignificant at 5 and even 10 percent level of confidence, except in the case of the entire sampled firms that are significant at 10 percent level of confidence and negative. It also shows decline of efficiency during post privatization years in beverage, chemical, metal and wood, and agriculture sub sectors/sectors The value of t-statistics in the cases of food, leather and textile sectors is positive, however, it is not significant even at 10 percent level of confidence. In the case of the entire sample the value of t-statistics is negative and significant at 10 percent level of confidence. All these figures reveal that performance of operating efficiency during post privatization years has been lower than that of pre-privatization years.

Possible explanation for this fact is as it is mentioned in the problem statement section of this study, the buyers of the privatized PEs are unreliable and lacks entrepreneurial skills and business backgrounds to faster the efficiency of the firms in their hands. Thus, mere transfer of ownership does not bring any significant

change in the operating efficiency of firms, as listed in the Ethiopian case as supported by the data used in this study. The result of TE mean comparison is against the hypothesis that privatization increases technical efficiency, at least in the Ethiopian case. In contrast to this finding, Chirwa (2001) found a result for the privatized public enterprises in support of the hypothesis that privatization increases technical efficiency in Malawian manufacturing industries. From this, one can say that Ethiopia may learn much lesson and experiences from other African countries so as to make the privatization endeavor fruitful. This would seem to refute the notion commonly expressed by government officials that post privatization technical efficiency is superior to that of pre privatization. This finding is in agreement with the one conducted by Mohan and Ray (2003) in Indian public and private sectors.

5.2.1.2. Measures of Profitability Difference

According to the paired sample mean test for profitability, in none of the six sub-sector /sector, profitability shows an increase in post privatization years. As in the case of efficiency, except for the sub-sector of leather and textile, food, and metal and wood in the rest of the sectors profitability had shown a declining trend. However, except in the case of chemical sub-sector, the decline trend in profitability is not a significant event at the 10 percent level of confidence. This suggests that the transfer of enterprises to the private sector in Ethiopia had not a significant impact on performance, as measured by profitability. Of course, a more conclusive evaluation requires that macroeconomic and other external factors that could have had an effect on profitability are controlled for. For the decline in profitability the same explanation can be suggested as in the case of low efficiency in the post privatization years of privatized PEs. Again the hypothesis that claims for better profitability in post privatization years is proved false in Ethiopia. See Table 5.10 below.

Table 5.10: Results of paired sample statistics for profitability in pre and Post Years of privatization

S.No	Sub-Sector/Sector	Mean		t-stat.
		Post	Pre	
1	Leather &Textile	3935.1	1697.6	1.635
2	Food	1083	1049.8	0.081
3	Beverage	5813	209375	-1.240
4	Chemical	370.9	1216.22	-2.760**
5	Metal &Wood	773	276.5	1.844
6	Agriculture	6150.2	7772	-.219
7	All the sampled Firms	2856	5264	-1.036

Source: Own computation.

** Significant at the 5% level of confidence

5.2.2. Impact of Privatization on Technical Efficiency: Econometric Results

By employing multi-stage output oriented DEA analysis on balanced panel of input and output variables technical efficiency scores are obtained. After obtaining technical efficiency scores from DEA, the determinants of technical efficiency are analyzed by using Random Effect Generalized Least Square (GLS) regression. The regression estimation of each sub-sector /sector used balanced panels i.e. the same numbers of observations on each cross-section unit. The analysis is carried out by using STATA Intercooled (7.0) software package. "STATA" is popularly used package for econometric analysis, and it is standard package for World Bank research group. Regression analysis is done for the five sub-sectors in the manufacturing sector separately and in-group. However, it is not done for agriculture sector because of the lack of important data on market share, import share and capital intensity. In the data set used in this study the existence of outliers created biased regression slopes. This problem is solved by downweighting the outliers with the use of mean estimators in the model. (Greene, 2002; Wooldridge, 2002). In all the regression result the dependant variable is technical efficiency (TE) and six or five

explanatory variable. These are dummy variable for privatization (PR) ("1" for post privatization years and "0" for pre privatization years), market share (MS) as a measure to capture the extent of domestic completion, squared market share (SMS) to model curvilinear relation ship, import share (IMS) to capture the role of international competition, and a dummy variable for size of firms under the study. ("1" for large sized firms and "0" for medium sized firms). However, in the case of metal and wood sub-sector the dummy variable for size of firms is not included for all the sampled firms in the sector are in the same size range.

5.2.2.1. Regression Result of Leather and Textile Sub-sector

Table 5.10 below presents the results of the random effect GLS estimation for the technical efficiency with the explanatory variables described earlier.

Table 5.11: Random effects GLS Estimation of Leather and Textile Sub-sector

Number of obs. = 49

Number of groups = 7

R-sq:overall = 0.1852

Wald chi2 (6)= 9.55

Prob > chi2 = 0.145

TE	Coefficient	Std.Error	Z	(95%conf.interval)	
PR	-.1298747	.0828587	-1.57	-.2922746	.0325253
MS	-.4123306	2.867926	-1.44	-9.744339	1.497726
SMS	.74284	8.916909	1.32	-5.733981	29.2196
IMS	.2265986	.1214344	1.87***	-.0114085	.4646057
KI	.1287014	.0579219	2.22**	.0151767	.2422262
SI	.0283606	.1149062	0.25	-.1968515	.2535726
α	.922306	.210259	4.39*	.510206	1.334406

Source: Own computation.

** Significant at the 5% level.

*** Significant at the 10% level.

* Significant at the 1% level.

The result presented above show that the dummy PR, which stands for the transfer of PEs to the private sector, is negative coefficient (-0.13) and it is insignificant even at the 10 percent level of confidence. **Other things being equal**², it implies that in the leather and textile sector privatization of PEs decreased the technical efficiency

² All the interpretations in this section consider the famous concept in economics- the assumption of "Ceteris Paribus "-other things being equal.

of the transferred firms, however, it is insignificant. The hypothesis that privatization leads to improvement in technical efficiency in the leather and textile sector is not supported by the data.

The coefficient for market share is relatively higher (-0.4124) and with the expected sign but insignificant even at 10 percent level of confidence, which implies that as market dominance expressed by market share increases technical efficiency decreases. The curvilinear relationship between technical efficiency and competition is rejected. The inflow of imports (IMS) in this sector had created strong incentives for domestic firms to operate efficiently and increased their technical efficiency by around 23 percent. The coefficient for capital intensity is positive and significant at 5 percent level of confidence. Which implies that capital-intensive firms in the sector are equipped by most advanced technology that enables them to increase their technical efficiency by around 13 percent.

The coefficient for dummy variable of firm size has a positive coefficient but it is insignificant even at 10 percent level of confidence. It implies that as the size of a given firm shifts from medium to larger its technical efficiency becomes higher and higher. The coefficient for the intercept term is larger (i.e. 0.673) and significant even at 1 percent level of confidence. If a fixed effect panel had been estimated this coefficient would be reflecting firm specific characteristics. However, since random effects were used, this is not the case and the coefficient can be viewed as a reference value of the operating efficiency of the firms. Garron et al. (2002)

5.2.2.2 Regression Result of Food processing sub sector

Table 5.12. Random-effects GLS Regression of Food Processing Sub-Sector:

Number of obs. = 70

Number of groups =10

R-sq: overall = 0.4696

Wald chi2 (6) =65.9

Prob > chi2 = 0.0000

TE	Coefficient	Std.Error	Z	(95%conf.interval)	
PR	.1411257	.0369416	3.82*	.0687215	.2135299
MS	1.373566	.454899	3.02*	.4819803	2.265152
IMS	.2996952	.1264923	2.37*	.0517749	.5476156
KI	.0148493	.0146887	1.01	-.01394	.0436385
SI	-.2245837	.063549	-3.53*	-.3491374	-.10003
α	.4744573	.0678333	6.99*	.3415065	.6074081

Source: Own computation

* Significant at the 1% level

For food processing sub- sector, the random effect model estimation reveals that privatization contributed for more than 14 percent improvement and the result is significant at 1 percent level of confidence. Hence, privatizing food sector is economically viable.

Against prior expectation market share has positive coefficient and larger (1.37) which is significant at 1 percent level. This implies that as a given firm's market share increases technical efficiency also increases by significant amount. Squared market share is dropped from the regression for its inclusion reduces the significance of "MS"

Except the coefficient for capital intensity, which is not significant even at 10 percent level of confidence, the coefficients of the rest of variables i.e. import shares and capital intensity are significant at 1 percent level of significance. The entire variables except marker share are in accordance with the prior expectation. The interpretations of the slope coefficients of the variables is this sub section and in the following sections are same as with that in section 5.2.2.1

5.2.2.3 Regression Result of Beverage Sub-Sector

Table 5.13 Random-effects GLS Regression of Beverage Sub-Sector:

Number of obs = 49
 Number of groups = 7
 R-sq: overall = 0.5411
 Wald chi2 (6) = 33.06
 Prob > chi2 = 0.0000

TE	Coefficient	Std.Error	Z	(95%conf. interval)	
PR	.1372058	.0520098	2.64*	.0352685	.2391431
MS	-1.284324	2.064943	-0.62	-5.331538	2.76289
SMS	0.4230375	6.391729	0.66	-8.297184	16.75793
IMS	-.0001957	.0007396	-0.26	-.0016453	.001254
KI	.001855	.0014026	1.32	-.0008941	.004604
SI	-.0470683	.1116742	-0.42	-.2659457	.1718092
α	.797538	.1736089	4.59*	.4572708	1.137805

Source: Own computation

* Significant at the 1% level

The result for beverage sector using the econometric analysis shows that privatization contributed about 14 percent increment to the technical efficiency of privatized public enterprises and the result is significant at 1 percent level of significance. This is reliable estimation result for it used larger observations the mean comparison shown in Table 5.9.

In this sector, as in the case of food processing sector, privatization is economically viable. The argument for such a positive contribution of privatization to the sub sector maybe due to the oligopolistic nature of firms in the sub sector, which entails aggressive competition among the firms in the beverage industry. All the coefficients of the rest of explanatory variables are in agreement with their priori expectations.

5.2.2.4 Regression Result of Chemical Sub-Sector

Table 5.14 Random-effects GLS Regression Of Chemical Sub-Sector:

Number of obs = 35

Number of groups = 5

R-sq: overall = 0.5925

Wald chi2 (5) = 42.17

Prob > chi2 = 0.0000

TE	Coefficient	Std. Error	Z	(95%conf. interval)	
PR	-.4072834	.0986395	-4.13*	-.6006133	-.2139535
MS	-2.542676	.670197	-3.79*	-3.856238	-1.229114
SMS	3.939134	.8129125	4.85*	2.345854	5.532413
IMS	-.0143222	.0756647	-0.19	-.1626223	.1339779
SI	.0177984	.0076081	2.34*	.0028867	.03271
α	.857916	.1251726	6.85*	.6125822	1.10325

Source: Own computation

* Significant at the 1% level

In the chemical sector the econometric analysis revealed that both performance-measuring parameters (i.e. technical efficiency and profitability) show no improvement in the post privatization years.

Care should be taken in privatizing this sector for privatization brought huge decline in the technical efficiency of the sampled firms in the sector. Further study is important to assure the fact indicated by the data utilized in this study. All the rest of explanatory variables are significant at 1 percent level of significance. Except for imports share. Even though the coefficient for imports share is not significant the inflow of imported chemicals to domestic market has negative impact on efficiency of the firms in the chemical sector.

5.2.2.5 Regression Result of Metal and Wood Sub -Sector

Table 5.15: Random-effects GLS Regression of Metal & Wood Sub Sector:

Number of obs = 49
 Number of groups = 7
 R-sq: overall = 0.1255
 Wald chi2 (5) = 15.15
 Prob > chi2 = 0.0097

TE	Coefficient	Std.Error	Z	(95%conf. interval)	
PR	.1439245	.0511998	2.81*	.0435748	.2442742
MS	-1.248238	2.663475	-0.47	-6.468553	3.972077
SMS	0.191109	9.487882	0.76	-11.4048	25.78702
IMS	.0684746	.0554337	1.24	-.0401805	.1771296
KI	-.0013306	.0087554	-0.15	-.018491	.0158297
α	.6777251	.1865297	3.63*	.3121335	1.043317

Source: Own computation

* Significant at the 1% level

The econometric analysis in this sub sector revealed that there is relatively higher (0.14) improvement in technical efficiency of firms privatized in the post privatization years. The finding is significant at 1 percent level of confidence.

Market share has negative coefficient (-1.248) even if is insignificant which implies that the sector demands lesser monopoly power among the firms operating in the industry. Thus, this sector needs assurance of “anti-trust” law in the country so as to prevent the likely emergency of monopoly in the sector. All the rest of the explanatory variables are by far insignificant in affecting the technical efficiency of firms in metal and wood sub sector.

5.2.2.6 Regression Result of Manufacturing sector

Table 5.16. Random-effects GLS Regression of Manufacturing Sector:

Number of obs	= 252	Wald chi2 (6)	= 61.57
Number of groups	= 36	Prob > chi2	= 0.0000
R-sq: overall	= 0.0928		

TE	Coefficient	Std.Err	Z	(95%conf. interval)	
PR	.0588193	.0272798	2.16*	.005352	.1122867
MS	.3960791	.233905	1.69***	-.0623663	.8545245
IMS	-.0002028	.0008765	-0.23	-.0019206	.001515
KI	.0034788	.0015912	2.19**	.0003601	.0065975
SI	-.0210044	.0533968	-0.39	-.1256602	.0836514
α	.6056643	.0531908	11.39*	.5014122	.7099164

Source: Own computation

* Significant at the 1% level

** Significant at the 5% level

*** Significant at the 10% level

The contribution of privatization to the over all sampled privatized firms in the manufacturing sector has shown a small coefficient (0.06) improvement but the result is significant at 5 percent level of confidence.

Hence the data employed in this study support the evidence that privatization has positive impact in the over all manufacturing sector even if the improvement is extremely in lower percentage points. This is a sector with huge potential for privatization and promoting the economic status of private sector in Ethiopia.

Except firm size and squared market share, all the rest of the explanatory variables have significant magnitude in determining the technical efficiency of the firms in the manufacturing sector as shown in Table 5.16.

In the manufacturing sector as firma size increases the technical efficiency of privatized public enterprise decreases by small percentage figure even though it is insignificant even at 10 Percent level of confidence.

CHAPTER SIX

6. CONCLUSIONS AND POLICY IMPLICATION

6.1. CONCLUSIONS

Since the Emperor's first Five Year Plan (1957-1962) to date Ethiopia has been in continuous move with different policy directives and development plans. Nevertheless, none of the policy directives attempted has resulted a significant economic development and welfare improvement of the citizens of this Country. Mind –boggling statistics of human miserly, deprivation and poverty become our identification for dozens of years. In attempt to change the prevailing hopeless condition the government has introduced many reforms. Public sector reforms, that comprise privatization of state owned enterprises as part and parcel, introduced so as to pave the way to market economy.

During socialist Ethiopia, most private owned properties had become state owned through confiscation or nationalization of private property without compensation. Due to this fact since the decree of privatization in Ethiopia, popular pressure arose to have their property returned and for the compensation of damage that had been caused to properties of previous owners. The present ruling party then had to determine if, to what extent, and in what form restitution should be made for property that had been taken. This wish to make restitution did not stem from a desire to do justice, but from the perceived need to put property into private ownership in general, in order to let a market economy develop.

The theoretical basis for the concept of restitution is the argument that says... by making restitution of confiscated property one reaches the aim of privatization more quickly.

In examining all these issues the most important purpose of restitution is to change the Ethiopian economic system as quickly as possible to one in which private property enables the market to function. There is also a psychological purpose connected with this: to overcome people's attitude towards private property and overcome the belief that state ownership of property creates freedom and equality.

In order to accomplish these purposes privatization and restitution must occur rapidly and in a less complicated manner as possible, and put property into the hands of those who will use it efficiently for production.

In this regard, attempts have been made in this study to assess the performance of privatized public enterprises in recent years. With view to addressing this objective, the study follows both a descriptive and analytical approach. The analytical part deploys quantitative techniques; the nonparametric method of Data envelopment analysis (DEA) is used to compare the efficiency differences in pre and post performance of privatized public enterprises, by using output oriented Malmquist DEAP version 2.1 software. After obtaining efficiency scores, by employing multi-stage out put oriented DEA analysis on balanced panel of input and output variables, The determinants of technical efficiency are analyzed by using Random Effect generalized least square regression by using STATA software. Out of 214 public enterprises privatized up to the end of 2004, only 81 of them are in relatively suitable condition to assess per and post privatization performances. From the 81 firms 41 firms are included in the study and firm level data that covers time period from 1995-2003/2004 are obtained from CSA and PaPESA.

The firms included in this study belong to different sectors: such as leather and textile, food processing, chemical, wood and metal, and agriculture. Such classification of industries is very often used in similar studies and I opt to use the same pattern.

Both the descriptive and analytical findings of this study disclosed that privatization outcomes in Ethiopia have been less than satisfactory.

Percentage share of privatization proceeds to total revenue of the country for the years 1995/96 - 2001/02 were on average below 6 percent. This fact reveals that privatization up to recent years, have not brought significant impact on government financial flows in Ethiopia, as the same concussion holds in other countries of Africa. Thus, the prime objective privatization in Ethiopia revenue generation for financing development activities undertaken by the government does not realized yet.

Privatization process in Ethiopia with regard to employment seems painless. However, the fate of around 60,000 permanent employees (World Bank, 1990) in the

state farms of the country and other divestitued former public enterprises had been miserable for those who have no social-security system to fall back on. Since the beginning of privatization, only slightly higher than half billion new investment is made on privatized SOEs. Much effort has to be exerted to attract FDI to the Country.

The empirical findings of the study concerning the impact of privatization on technical efficiency and profitability of the enterprises are mixed. Out of the six categories in this study, only in the two cases i.e. in the cases of food processing and beverage sectors that post privatization performance in terms of technical efficiency and profitability exhibit significant improvements at 5 percent level of confidence. In the metal and wood sector privatization has brought improvement eventhough it is not significant at 5 percent level of confidence. In the rest of three-sub sectors leather and textile, chemical, and agriculture show disimprovement in terms of technical efficiency in the post privatization years in Ethiopia. This finding is inline with similar studies in India. Mohan and Ray (2003) found that in Indian manufacturing sector the technical efficiency of state owned enterprises is superior to those of privately owned. Likewise, Boubakri and Cosset (1999) conducted a study on sixteen African privatized firms and found mixed result. Their findings suggest that privatization resulted in profitability improvements, although not significantly. Efficiency, as well as out measured by real sales, decreased slightly but not significantly while capital expenditures rose significantly in the post privatization period. Having said this what explains, the less satisfactory outcomes of privatization in Ethiopia?

In answering this question the following structural factors are evident. These are poor governance, weak law enforcement and lack of property right legislation that tend to keep the private sector from realizing its fullest potential.

Poor governance in Ethiopia is manifested by the incidence of corruption in the privatization process. Opportunity for corruption primarily depends on privatization methods such as non-availability of clear, transparent, verifiable and verified rules of the game.

The issue of property rights is coming to the forefront in countries moving toward a market economy. Such rights are at the heart of the privatization of state assets. However, the process is in jeopardy in former communist and socialist countries, where the benefits are not broadly shared with citizenry. In Ethiopia, the subject matter of privatization is not clearly defined because there is a considerable amount of uncertainty about the property right legislation. The question of restitution, which led to a flood of claims, mostly for land, which often concerns public enterprises under the Privatization and Public Enterprises Supervisor Authority. Until all the conflicting claims are settled, privatization cannot be speeded up and fruitful.

6.2. POLICY IMPLICATIONS

On the bases of the findings of this study one cannot hope to see improvements in performance in the privatized public enterprises through a mere transfer of ownership from government to the private. At its worse, privatization raises cost and has the potential to undermine other important values, such as equity. These results could have important implications for privatization policy; it could be plausibly argued that, to start with, the cause of lifting overall economic performance would be better served by focusing on industrial sectors in which the private sector has done better or in which it could do better. Privatization has brought slight but significant improvements in the sectors like food processing, beverage and albeit in the metal and wood sector. Thus, privatizing these sectors would result in better performances. Developing property right legislation is crucial element for the success of Privatization in Ethiopia .The most important component of ownership reform is privatization of **land and enterprises**, without which it is impossible to implement a real market economy and a democratic society. While most of the economy, including all land and enterprises, were under state or cooperative ownership, it was quite complicated to launch the privatization process. This has caused many problems in the course of ownership reform.

There are victims of privatization in terms of retrenched labor in this country. This implies that the need for social plan to compensate the dismissed employees due to the ongoing privatization in the country.

To avoid misconception among the general public it is important to base privatization on availability of clear, transparent, verifiable and verified rules of the game.

The state involvement in business has to decrease gradually for not to erode the trust of investors who had plans to buy public enterprise. The same line of argument, Ethiopian and foreign investors complain about the strong monopoly power handled by and the preference given to party-owned businesses. The two issues have destructive effect on the ongoing privatization process in the country. To settle these cases **Public offering of shares** can be adopted for achieving widespread ownership, for gaining public approval, and to bring fair and equitable distribution of wealth among citizens.

In addition, as adopted by Bolivia, Ethiopia can also adopt **capitalization**, other than privatization, that allows private investors to obtain 50 percent ownership of an enterprise by committing to invest an amount equal to the market value of the existing enterprise. Thus, through this process the equity of the enterprise doubled, the private investor held 50 percent of the equity in the capitalized enterprise, and the state held other 50 percent.

To facilitate the process of restitution using **vouchers** i.e. providing the people entitled to restitution more of the vouchers or coupons, which could be exchanged for shares of stocks in large enterprises being privatized, is preferable since there are larger number of claimants whose items or properties were nationalized.

Anti-corruption legislation has been ratified since 2001 and government officials have been tried and convicted of corruption. This measure has to further strengthened to put the privatization process on the fertile ground.

To let the market decide on the existence or non-existence of an enterprise requires a high degree of transparency in the privatization process. In case, essential information is missing or distorted, the forces of demand and supply cannot distinguish the viable enterprise firm the doomed one. Market failure in the

privatization process might result in wrong decisions regarding firms to be privatized. In the past privatization implemented on the basis of limited information impeded the sale of the companies. Improving the transparency of the market would definitely help to improve the initiation and public acceptance of the Privatization and Public Enterprises Supervisory Authority's activities.

Furthermore, there should be developed capital market to speed up privatization in Ethiopia. To do so developing the financial sector of the country is very important. The National Bank of Ethiopia need to encourage the private banks for the development of stock markets that eventually leads to well developed capital market. Upgrading the efforts of Commercial Nominees, the subsidiary of the Commercial Bank of Ethiopia, may help much in this regard.

To sum up, more attention needs to be given to privatization implementation. Members of the country's parliamentary committee for economic issues have to watch all the proceedings of privatization in Ethiopia. As it is the executive and legislative branches of government that decide on the ways, pace and scope of privatization, it is natural that privatization related interests are largely mediated by the government. Unless otherwise the government promotes the development of ethical institutions, preferential schemes favoring individuals and affiliated groups would emerge in order to strengthen their economic and political power. This will eventually leads to loss of confidence in the legitimacy of the ongoing privatization process, and ultimately the legitimacy of the state itself.

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ANNEXES

ANNEX - 1

ከድ
Code _____

በኢትዮጵያ ከመንግሥት ወደግል ይዞታ የተዛወሩ ድርጅቶች ያሳዩትን መሻሻሎች ለመገምገም የተዘጋጀ መጠይቅ፣

Questionnaire to Assess the Impact of Privatization on Privatized Public Enterprises in Ethiopia:

ክፍል 1: የአጠቃላይ ሁኔታ መግለጫ

Section 1: General Information

1.1 የባለድርጅቱ/ቶች/ ወይም የድርጅቱ ስም

Name of the enterprise/company: _____

አድራሻ

Address (city/ region): _____

1.2 ድርጅቱ ወደ ግል ይዞታ ከመዛወሩ በፊት የተቋቋመበት ዓ.ም
Year of commencement before privatization:

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1.3 ድርጅቱ ከመንግስት ወደ ግል የተዛወረበት ወርና ዓ.ም /በኢትዮጵያ አቆጣጠር/
Date and year of transfer to private ownership

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1.4 ከተዛወረ በኋላ ሥራ የጀመረበት ወርና ዓመተ ምህረት /በኢትዮጵያ አቆጣጠር/ መቼ ነው?
ከተዛወረ በኋላ ሥራ የጀመረበት ወርና ዓመተ ምህረት /በኢትዮጵያ አቆጣጠር/ መቼ ነው?

After the transfer when did the enterprise start functioning?

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1.5 ድርጅቱ የተዛወረበት ሁኔታ /ሁኔታውን የሚያሳየውን አማራጭ "✓" ያስቀምጡ/
Modality of privatization used (put the mark "✓" on the right modality used)

ሙሉ ንብረቱን በመሸጥ

Asset sale

የድርጅቱ ሠራተኞችና ማኔጅመንቱ ድርጅቱን በመግዛት

Employees and management buy - out/MEBO

የድርጅቱን ማኔጅመንት በመከናተር

Management contract

ሙሉውን የመንግስት ድርሻ በመሸጥ

Complete sales of shares

በከፊል ሽያጭ እና በድርድር ሽያጭ

Restricted tender and negotiated sale

ሌላ ካለ ይጠቀስ

1.6 የድርጅቱ ሕጋዊ አቋም ምንድን ነው? /ሁኔታውን የሚያሳየውን አማራጭ "✓" ያስቀምጡ/

Legal status of the enterprise (put the mark "✓" on the right box)

- በአንድ ግለሰብ ባለቤትነት የሚመራ
Sole proprietorship
- በሽርክና /የሽርኮችን ቁጥር ይግለፁ/
Partnership (indicate number of share holders)
- ኃላፊነቱ የተወሰነ ኩባንያ
Limited liability enterprises
- ባለአክሲዮን ኩባንያ
Share company
- የሕብረት ሥራ ማህበር
Union
- በሽሙር ማህበር
Joint Venture
- ሌላ /ይገለፅ/
Other (specify) _____

1.7 ድርጅቱ ባለአክሲዮን ኩባንያ ካልሆነ የድርጅቱ ባለቤቶች (ባለቤት) ከፍተኛ የትምህርት ደረጃ በትክክለኛው ላይ "✓" ያድርጉ
If the enterprise is not share company, what is the highest level of education of entrepreneurs (chief executive) manger put"✓" on the right one.

Illiterate ያልተማረ	1ኛ ደረጃ Primary		2ኛ ደረጃ Secondary		ቴክኒክና መ.ያ Vocational (Technical)		ዲፕሎማ Diploma		ዲግሪ Degree		
	Complete የጨረሰ	Incomplete የልጩ ረሰ	Complete የጨረሰ	Incomplete የልጩ ረሰ	Complete የጨረሰ	Incomplete የልጩ ረሰ	Complete የጨረሰ	Incomplete የልጩ ረሰ	1 st	2 nd	3 rd (Ph..D)

1.8 የድርጅቱ የሂሳብ መዝገብ ሁኔታ /የተሟላ ከሆነ የሂሳብ ሪፖርቱ ይያያዝ/
Financial Account of the enterprise (Attach its financial statement if it's complete) put the mark "✓" on the right box

- የተሟላ የሂሳብ መዝገብ አለው
Has complete financial account
- የገቢና የውጭ ዝርዝር ብቻ
Only the lists of revenue and expenditure
- ምንም ዓይነት የሂሳብ መዝገብ የለውም
There is no financial account

1.9 የፋይናንስ ምንጮች /ድርሻውን በ% ያመልክቱ/
Sources of capital (indicate % of total)

የራስ ቁጠባ Own savings	ከቤተሰብ ወይም ኃደኛ Funds from relatives	ሽሪክ Partners	ባንክ Bank loan	ከአራጣ አበዳሪዎች Won from money lender	ሌላ Others

1.10 የሚከተለው ሠንጠረዥ ድርጅቱን በተመለከተ ዝርዝር መረጃዎች የሚሞሉበት ነው።
The following table is to fill detailed data regarding the enterprise.

ዓ.ም EFY	ዋና ምርቶች Production	የአመቱ ሽያጭ /በብር/ Yearly sales (Birr)	ደሞዝ ና ምንዳ በብር Wages Raw &sal ary (Birr' 000)	የድርጅቱ ሠራተኞች በብዛት Employment			የድርጅቱ ቋሚ ንብረቶች በየአመቱ የተጣራ ዋጋ በብር Book value of Fixed assets In Birr.'000	የድርጅቱ ሌሎች ዋና ዋና ወጪዎች Other major costs of the ent.		የድርጅቱ የአመቱ የተጣራ ትርፍ ከገቢው-ውር በፊትና በኋላ Yearly net profit in pre &post priva.	ድርጅቱ ከመርቶች ወደ ውጭ ሀገር የላከው መጠን በብር Total values of export s in (Bir'00 0)
				ከውጭ ሀገር Import	ከአገር ውስጥ Local	ሴት Female		ወንድ Male	ለጥናት ና ምርምር (?000)		
19__											
19__											
19__											
19__											
19__											
19__											
19__											

ክፍል - 2ተቋማዊና የፖሊሲ ጉዳዮች አስመልክቶ የቀረበ መጠይቅ
Section 2: Questionnaire for tracing institutional and policy issues to
identify constraints and opportunities of privatization in Ethiopia

2.1. መንግስት ያወጣቸው የኢኮኖሚ ፖሊሲዎች ቀጣይነት የሚኖራቸውና በነዚህ ፖሊሲዎች ምክንያት ትርፍ የሚያስገኙ ዕድሎች የሚፈጥሩ ይመስልዎታል?

Do you think that the current economic policies of government would sustain and create profit-making oppourtunity?

አዎ አይመስለኝም
 Yes No

መልስዎ አይመስለኝም ከሆነ አባክዎን ምክንያቶቹን ይግለጹ
 If No, please give details:

2.2 የኢትዮጵያ መንግስት የኅራይቤታይዜሽን አዋጅ ቁጥር 146/1990 እና ማሻሻያው አዋጅ ቁጥር 110/91 ግልፅ ናቸውን?

Are the Ethiopian government privatization proclamations No. 146/1998 and its amendment No. 182/1999 clear?

አዎ አይደለም
 Yes No.

መልስዎ ግልጽ አይደለም ከሆነ ግልፅ ያልሆኑ የአዋጁንና የማሻሻያውን ወይም የደንቦቹን አንቀጾች ይግለጹ::

If your response to Q. No. 2.2 is "No.", please specify the areas/parts of the proclamation or the regulation which is not clear

2.3. አሁን በኢትዮጵያ ያለው የመሬት ስሪት /የመሬት ሕግ/ በድርጅትዎ የአሁኑና የወደፊቱ እንቅስቃሴ ላይ አሉታዊ ተፅዕኖ አለውን? /ሊኖረው ይችላል?

Does the existing land tenure system in Ethiopia have and will have any constraint in your current and future business activities?

አዎ አይደለም
 Yes No.

መልስዎ "አዎ" ከሆነ ችግሩን ይግለጹ

If yes, describe the constraints (negative impacts)

Do you think that the on going privatization process in Ethiopia justifies equity i.e. offers equal opportunity (the same chances) regardless of race, sex, or political affiliation

አዎ
Yes

አይደለም
No.

መልስዎ አይደለም ከሆነ ችግሩን ይግለጹ

If Yes, Please forward your comment in the space provided below

2.8. በ2.7 ላይ እንደተመለከተው ወደ ግል ይዞታ የሚዛወሩ ድርጅቶች ንብረቶች የዋጋ ትመና ትክክለኛና ግልፅ ነውን ?

As in Q. No. 3.7, do you think that valuing of the assets of the enterprises to be privatized is fair and transparent?

አዎ

አይደለም
No.

መልስዎ አይደለም ከሆነ ችግሩን ይግለጹ

If No, Please specify the problems;

2.9. በኢትዮጵያ በመንግስት ይዞታ ይተዳደሩ የነበሩትን ድርጅቶች ወደ ግል ይዞታ የማዘዋወሩ እንቅስቃሴ የታለመለትን ግብ አሳክቷል?

Do you think that privatization in Ethiopia met its expectation?

አዎ
Yes

አይደለም
No.

2.9.1. መልስዎ አይደለም ከሆነ ቀጥሎ ከተመለከቱት አስረጂዎች የትኞቹ ሁኔታውን በትክክል ይገልጻሉ /ከአንድ በላይ አማራጮችን በቅደም ተከተል መጥቀስ ይችላሉ/

If your response is "No" which of the following justifications explain the case correctly? (put the mark "✓" on the right justification you think)

የዝውውሩ ሂደት አዝጋሚ መሆኑ፤
Very slow process.

የግሉ ክፍለ ኢኮኖሚ እንዲያንሠራራ ያበረከተው አስተዋፅኦ የጎላ ባለመሆኑ፤
Insignificant contribution to private sector development.

የዝውውሩ ሂደት ፍትሐዊነትና ሚዛናዊነት የጎደለው በመሆኑ፤
For the process is unfair and inequitable.

የመንግስትን ወጪ በመቀነስ ረገድ ያበረከተው ድርሻ ውስን በመሆኑ
Limited contribution in reducing budget deficit of the government.

ሌላ ምክንያት ካለ ይጥቀሱ

Other, specify _____

አመሰግናለሁ!
Thank you

Annex-2

List of Privatized PEs Against Privatization Implementation Guidelines:

S.No.	Name of the Enterprise	Bid. No	Date of Bid Document sold	Date on which floor price is announced	Lacking Item
1	Anbessa Shoe. S.C	002/20012002	April/2002	Sept, 2002	Floor price announced not timely.
2	Kaliti Animal Feed Processing Ent.	003/2002	April 2002	Sept, 2002	Floor price announced not timely.
3	Akaki Tailor S.C	002/20012002	April 2002	Sept, 2002	Floor price announced not timely.
4	AddisBrick Manufacturing S.C	002/20012002	April 2002	Sept, 2002	Floor price announced not timely.
5	Residential HousingConst. Ent.	002/20012002	April 2002	Sept, 2002	Floor price announced not timely
6	Akaki Spare Parts S.C	002/20012002	April 2002	Sept, 2002	Floor price announced not timely
7	Fafa Food Complex S.C	002/20012002	April 2002	Sept, 2002	Floor price announced not timely
8	Birhan Eye Glass	003/2002	April 2001	April 2001	Floor price announced not timely
9	Awassa Flout Mill Factory (Now it is in the hand of Gov.)	05/1999200	April 2001	April 2001	Sale agreement and specimen
10	Brick products S.C	05/1999200	April 2001	Sept 2003	Floor price announced not timely
11	Modjo Leather Products S.C	05/1999200	April 2001	Sept 2003	Floor price announced not timely
12	Gullele Tailor S.C	05/1999200	April 2002	Sept 2003	Floor price announced not timely
13	Addis Ababa Leather Products S.C	05/1999200	April 2001	Sept 2003	Floor price announced not timely
14	Addis Tailor S.C	05/1999200	April 2001	Sept 2003	Floor price announced not timely

Source Unpublished Report by FEaACC

Annex-3

List of Few Public Enterprises Transferred by Price Adjustment since 2000:

S.No	Name of the Enterprise	Initial bid price	Adjusted bid price	Discrepancy	Remark
1	Gonder Dairy farm	730,000.00	734,587.18	4,587.18	
2	Debrezeit Dairy Farm	750,000.00	568,156.23	(181,743.77)	
3	Sale No. 2&3 Dairy farm	1,200,000.00	1,080,303.05	(119,696.95)	
4	Akaki Blanket Factory	10,205,043.17	9,556,953.61	(64,8089.56)	
5	Kaliti Garment Factory	20,646,323.27	15,152,521.46	(5,493,801.81)	
6	Diredawa Edible oil Factory	1,849,012.44	1,651,057.36	(197,955.08)	
Total		35,020,379.18	28,383,579.59	6,636,799.59	

Annex 4-A

List of State Owned Enterprises Privatized from 1996 up to 2000

No	Description	Buyer	Contract price (Br.)	Contract date	Type of sale
	Ghion Hotels				
1	Rendezvous Cafeteria	W/t Enyesh Asres	2800000	06/25/97	Full***
2	Axum Hotel	Ethiopian Express and Travel Agency	890167	07/01/95	Business**
3	Fogera Hotel	Geait Co.	950105	07/03/00	Full
4	Wanzye Hotel	Amara Development Association	500000	09/11/95	Business
5	Terrara Hotel	Addis Ababa	617480.92	12/02/95	Business
6	Bahir-Dar Ghion Hotel	Ato Weldu W/Argay	1100000	07/04/95	Business
7	Taitu Hotel	The Yellow Pages	5273000	05/19/99	Full
8	Gishen Hotel /Ghion/@ Ras Hotel	W/o Yihdega G/selassie	12527.15	07/19/99	Full
	Ras Hotel				
9	Ras Gril	Addis Ababa	229993.2	12/02/95	Business
10	Ras Hotel Debrezeit	Midroc Ethiopia	8700000	09/04/96	Full
	Wabi Shebelle Hotels				
11	Lalibela Resturant	Ibex Hotel	905155.5	09/26/95	Business
12	Gidabo Hotel	Wondo Genet PLC	505000	10/18/95	Business
	Ethiopia Hotels				
13	Gibe Ethiopia Hotel	Addis Fana	475999.55	12/01/95	Business
14	Walga Ethiopia Hotel@	W/o Belaniesh & Others	426135.39	05/19/99	Full
15	Wollega Ethiopia Hotel	Addis Fana	517047.23	12/01/95	Business
16	Dahlak Paradise	W/rt Reta Tsehay	650000	07/06/95	Business
17	Tourist Hotel	W/rt Alemtshay Tegegnwork	1100000	09/29/95	Business
	Filwoha's Administration				
18	Boku Spa	Dinsho Oromyia	210231	08/07/95	Business
	Ehof				
19	Dire Dawa Branch	Ato Girma Welde &W/ro Kelemua	650000	04/04/97	Business
20	Awassa Branch	Dire Industry	603098.69	10/21/96	Full

21	Gullele Sstore	Ato Meseret Sergualem	2156000	04/04/97	Full
22	Bole Market@	Ato Mesfin Areaya	3146061	12/02/98	Full
23	Jimma Branch	Omedad Private Ltd.	255101	11/07/97	Full
24	Meskel Adebaby (Finfine) Shop	Ato Abrham Demisse	1050000	12/19/95	Full
25	Packing Store & Shop	Addis Fana	6752914.04	12/02/95	Business
26	Kality Store (Ethof)	Freigtors Cargo	4322904.04	04/04/97	Full
27	Technic Service (Spare Part)	Addis Fana	3921947.33	01/17/97	Business
28	Tekle Haimanot Shop	Ato Markos G/Mariam	1026065.1	12/19/95	Full
29	Tewodros Store	Ato Sahed Ibrahim	3551551	12/19/95	Full
30	Nazereth Branch	Omedad Private Ltd.	901000	01/24/96	Business
31	Bahir Dar Branch	Addis Fana	648137.1	12/02/95	Business
32	Technical Service (Build&Fixed Ass.)	Ethiopian Tourist Trade	8777579.61	08/16/95	Building &Fixed Asset
33	Adwa Market	Addis Fana	1771908.9	12/02/95	Business
34	Stadium Store	Addis Fana	765246.51	12/02/95	Business
35	Andinet Shop	Ato Sahed Ibrahim	1051551	12/19/95	Business
	Tana Super Market				
36	Tana Market & Store	National Trading Pvt.	68010020	10/16/95	Full
	Food Stuff				
37	Shop No.8	W/ro Lina Semir	56000	04/25/96	Full
38	Harar	Ato Muktar Mohammed	208499	04/04/97	Full
39	Meskerem	Addis Fana	725087.51	12/02/95	Business
40	Ware House No 83	Addis Fana	671223.73	12/02/95	Business
41	Goba	Ato Ahmed Mehamed	58000	04/04/97	Business
42	Warehouse No.84	Ato Sead Ibrahim	551999	12/19/95	Full
43	Tewodros	Solast Travel Agency	4101001	04/02/97	Full
44	Akaki	Addis Fana	219709.18	12/02/95	Business
45	Warehouse No.88	Ato Sead Ibrahim	651000	08/20/95	Full
46	Awassa	Addis Fana	260347.3	12/02/95	Business
47	Shashemene	Addis Fana	210250.43	12/02/95	Business
48	Gondar	Addis Fana	295284.51	12/02/95	Business
49	Jimma	Addis Fana	262640.85	12/02/95	Business
50	Diredawa	Addis Fana	411951.02	12/02/95	Business
51	Anbessa	Addis Fana	540756.19	12/02/95	Business

52	Bahir Dar	Addis Fana	316358.53	12/02/95	Business
53	Misrak Supermarket@	Charalam bos M- TZimas	586497.56	12/01/98	Full
54	Tatek	W/ro Hadya Gonji	700000	07/05/95	Business
55	Baro	Addis Fana	541485.76	12/02/95	Business
56	Nekemet	Addis Fana	194986.16	12/02/95	Business
57	Dessie	Addis Fana	104377.34	12/02/95	Business
58	Nazret	Addis Fana	308665.55	12/02/95	Business
59	Edget	Addis Fana	465932.17	12/02/95	Business
	Leather & Shoe				
60	Warehouse No2	Addis Fana	500001	08/02/96	Business
61	Jimma	Dire Industry	155107.26	08/20/96	Business
62	Dedessa	Dire Industry	80420.55	10/21/96	Business
63	Sinima Ras W.H	Ato Ahmed Ibrahim	1007165.95	07/05/95	Full
64	Meshoulekia	Ato Zemere Jemaneh	255477	12/02/95	Full
65	Adama	Addis Fana	204723.11	12/02/95	Full
66	Anewar	Addis Fana	351230.57	12/02/95	Business
67	Mexico	Addis Fana	190833.25	12/02/95	Business
68	Akaki	Addis Fana	183928.61	12/02/95	Business
69	Shashamane	Ato Kelifa Abajorga	81101	11/07/97	Business
70	Bahirdar	Ato Munir Ali	87400	08/20/96	Business
71	Sheger	Addis Fana	795644.39	12/02/95	Business
72	Dessie	Dire Industry	343361.69	10/21/96	Business
73	Nifas Silk	Addis Fana	194562.78	12/02/95	Business
74	Maychew	Addis Fana	303414.47	12/02/95	Business
75	Gola	Addis Fana	503282.35	12/02/95	Full
	Building Material				
76	H. Wholesale	Ato Merhatsion Nega	2501000	04/02/97	Full
77	Warehouse No.2	Addis Fana	2773122.99	12/02/95	Business
78	Shop No.5	W/ro Hadiya Gonji	1087700	12/02/95	Full
79	Shop No.4	Addis Fana	915186.21	12/02/95	Business
80	Warehouse No.1	Addis Fana	365379.37	12/02/95	Business
81	Shope No.3	Addis Fana	613876.23	12/02/95	Business
82	Dire Dawa Medeber &W.H	ITMAS PLC	1148342.75	01/27/96	Business
83	Shop No.2	Addis Fana	518086.67	12/02/95	Business
84	Shop No.1	Ato Sead Ibrahim	2051108	12/19/95	Full
	Center Food Processing				
85	Central Food Processing	ETTC	8752237.64	01/17/97	Full
	Stationery				
86	Shop No.4	W/ro Mitslal	783341.95	12/19/95	Full

		G/egzigabher			
87	Warehouse No.1	Addis Fana	1060000.58	12/02/95	Business
88	Shop No1	Ato Yitbarek Aegeye	1136404	07/05/95	Full
89	Shop No.2	Addis Fana	814882.41	12/02/95	Business
90	Shop No.3	Addis Fana	383340.85	12/02/95	Business
	Textiles				
91	Fetan Warehouse	Ato Fekadu Ambaye	3000000	04/25/96	Full
92	Shop No.3	Ato Yitbarek Zegeye	902890.08	12/19/95	Full
93	Shop No.10	Yegeta Trading	816544.5	12/19/95	Full
94	Afar	Addis Fana	738462.66	12/02/95	Business
95	Baro	Addis Fana	499498.7	12/02/95	Business
96	Addis Ketema	Addis Fana	1229263.45	12/02/95	Business
97	Warehouse No.2	Ato Kelifa Abajorga	658494.86	07/05/95	Full
	Automotive				
98	Shop No.6	Addis Fana	9211096.99	12/02/95	Business
99	Warehouse No.3	Addis Tyre S.c	625206.85	01/17/97	Business
100	Shop No.5	Ato Mohammed Haji Duri	1156502.1	12/19/95	Full
101	Shop No.4	W/ro Seblewngel Alemayehu	2513219	04/25/96	Full
102	Shop No.1	Geotra Co	3502000	08/20/96	Full
103	Shop No.3	Addis Tyre	18155	09/06/96	Business
	Kuraz Publishing				
104	Kuraz Publishing++	Mega Publishing Enterprise	13031048.06	09/29/95	Full
	Beverage				
105	Coca-Cola Factory *	East African Bottling	64030000	05/15/95	Full
106	Pepsi-Cola Factory **	Moha Soft Drinks	105356891.1	05/15/95	Full
107	Saint George Brewery	B.I.H International	742448086.81	11/05/98	Full
	Food				
108	Adwa Flour Milling	Biharil Babula Modi	20629102.43	07/17/95	Full
109	Dil Edible Oil Facotry @	Ato Kebede Wesene	2637564.7	02/18/99	Full
110	Edget Edible Oil @	Ato Zewde Liyew & others	1611899.97	12/22/99	Full
111	Awassa Flour S.C	Abeba Gidey Pvt.	18509250	07/03/00	Full
112	Anbessa Flout Milling	East African Trading	12335082.69	10/05/95	Full
113	Diredawa Edible Oil @	YaniI Jordani & Getachew worku	1849012.44	07/28/00	Full
114	Tigray Edible Oil Factory	Mesfin Engineering	334004	10/16/96	Business

115	Termaj Edible Oil Factory	Ato Ermias Amelga	6945265	09/25/95	Full
116	Debrezeith Flour Milling	Horayer Behenson & Sons	8000000	07/17/95	Full
117	Akaki Edible Oil Factory	Birale AgriI. Devt.	2051800	02/08/96	Full
	Wood				
118	Tikur Abay (Blue Nile) Furniture	Ato Selehadin Ibrahim & Mahammed haji	9359500	05/20/98	Full
119	Finfine House Holds & Furniture	Ato Endale Yirga	7110000	02/07/96	Full
120	Avalo Plywood @	Balanberas Mekonnen Gebeyhu	177507.69	09/10/99	Full
121	Wanza Wood Work (3factories)	Star Technical	31980000	04/25/96	Full
122	Warka House Holds & Furniture	Ato Fekadu Ambaye	8000000	08/03/95	Full
	Meat Factory				
123	Afincho Ber Shop	Ato Mekonnen Mesfin	242000	07/02/98	Full
124	Diredawa Meta Factory	MIDROC	47035330.94	01/08/98	Full
125	Combolcha Meat Factory	MIDROC	15456009.85	01/08/98	Full
126	Melgue Wondo Meat And Vegetables Factory	MIDROC	65250738.58	01/08/98	Full
127	Ethiopian Meat Concentrate Factory	MIDROC	36705044.45	01/08/98	Full
128	Gondar Meat Factory	MIDROC	17211410.09	01/08/98	Full
	STATE FARM				
129	Mullo Dairy Farm	Ato Abdulanaser Kelifa	4013003	02/10/00	Full
130	Selale No 2 And 3 Dairy Farm	Guder Agro Industry	1200000	10/06/00	Full
131	Modjo Dairy Farm	Ato Ayele W/senbet	2620656	08/18/00	Full
132	GojamGondar Agri.Ent.Ayehu, Lower & Upper Birr Farms.	Ethio-Coffe & Tea plantation & Marketing PLC.	103750000	07/07/00	Full
133	Wush Gumaro, Wush, Tea	Ethio-Coffee & Tea Plantation Marketing	222695938	07/07/00	Full

	Prod.&Mark.Enterp	PLC.			
134	Kuriftu Dairy Farm	Fuang Building Contractor	1800000	03/15/00	Full
135	Bishofty Farm	Ato Amanuel Assefa	250900	07/02/98	Business
136	Debrezeit Dairy Farm	Ato Haileleul T/mariam	750000	03/04/00	Full
137	Menagesha Dairy Farm	Flor Agricultral	515645.3	09/03/99	Full
138	Cheffa Farm	MIDROC	8027302.23	01/08/98	Full
139	Live Stock Market	MIDROC	74778978.1	01/08/98	Full
140	Cumbi Dairy Frm	W/o Martha Kebede	8056.09	03/27/99	Full
141	Jimma Dairy Farm	Vision Agr.& Agro Indu. Plc.	800000	09/13/99	Full
142	Gondar Dairy Farm	W/ro Gedarif Wubneh	730000	09/13/99	Full
143	Poultry Dev't Ent Including The New Project	MIDROC	144177665.1	01/08/98	Full
144	Holeta Dairy Farm	Ministry of Agriculture	2917196.55	10/25/99	Full
	Leather				
145	Awash Tannery	ELICO	127781850	01/08/98 /	Full
146	Universal Leathr Project	ELICO	16205000	06/20/97	Full
147	Ethipian Pickling	ELICO	35500000	06/20/97	Full
	Metal				
148	Hebret Metal Work	Zaff Enterprise	3100000	12/06/96	Full
	Textile				
149	Kality Spinning And Socks Knitting Facotry	Shoa Cotton Ginning Plc.	20646323.27	03/20/00	Full
150	Akaki Blanket Facotry	KK PLC.	10173844.43	03/18/00	Full
151	Adei Abeba Yarn Factory Block 1	Mr. Atila Yildrim	29040000	10/02/99	Lease for 5 years
152	Diredawa Textile Facotry	Mr. Atila Yidrim	111248000	12/14/99	(Full) hiring Sale
	Building				
153	Addis Cemental Products	Mohammed Yemen and Sons	15527000.3	03/20/96	Full
154	Pile Foundation And Water Well Drilling	Wat International	6201703	07/02/98	Full

	Construction				
	Chemical				
155	Addis Gas And Plastic Crates	Star Technical	22441000	04/25/96	Full
156	Gullele Sop	Ato Fitsum Zeab Asgedom	22370000	12/23/96	Full
157	Addis Car Battery @	Ato Murad Hussien & Others	2906289.69	10/19/99	Full
158	Dill Paint	Equatorial Business Group	35000000	03/28/96	Full
	Agro Industry				
159	Gondar Ginnery	Ato Mohammed Omer	6790599.99	11/05/98	Full
	Tobacco				
160	National Tobacco Enterprise (Head Office)	Sheba Investment Holding	285955707.3	12/23/98	51 %
	Printing				
161	Harar Printing Enterprise	Ato Fitsumzeab Asgedom	1164000	10/18/95	Full
	Mineral				
162	Legadembi Gold Mine	National Mining Pvt.	1290796624	06/19/97	98% for 20 years
	Pharmacy				
163	Axum Pharmacy	Ato Solomon Wendmineh	1005000	05/09/99	Business
164	Central Pharmacy	Star Pharmaceutical & Medical supplies s.c	1693406	05/12/99	Business
165	Hilson Pharmacy	Star Pharmaceutical Supplies s.c	1255135	05/12/99	Business
166	Public No.1 Pharmacy	Ato Sisay Endale	303690.19	05/09/99	Business

Source: Privatization Review Vol. I No. 1

Note:

+ Consist of 7 Shops

++ Consist of 34 Shop and Head Office

* Includes Addis and Dire Dawa Soft Drinks Factories

** Includes Abay Mesk, Gondar and Dessie Soft Drinks Factories

@ These are properties returned to former owners in accordance with Proclamation No.

110/1995.

The collections are for investments made by the government after the illegal nationalization.

*** Full-sale of business and buildings ✓

Business-building not sold, transferred on rental basis.
 " To be paid over a period of five years in annual installment

Annex 4-B

List of Enterprises Sold to Foreign Nationals From 1996 up to July, 2000

No	Name of Enterprise Sold	Value ('000 US\$)	Contract Year	Name of the Buyer	Nationality of the buyer	Remark
1	Abay Mesk, Desie Gonder Soft Drink Factories	16,600.00	1996	Moha Soft	Saudi	100%
2	Legedembi Gold Mine	172,00.00	1997	National Mining Corp.	Saudi	98% for 20 years
3	Ethio-Pickling	5,158.38	1997	Ethio Leather Industry	Saudi	100%
4	Universal Leather Factory	2,354.69	1997	Ethio Leather Industry	Saudi	100%
5	Awash Tannery	18,567.55	1997	Ethio Leather Industry	Saudi	100%
6	National Tobacco Enterprise	35,700.00	1998	Sheba Investment Holding	Yemeni	51%
7	Eight Agro-industrial Factories*	54,682.52	1998	MIDROC	Saudi	100%
8	Hora Ras Hotel	1,264.17	1997	MIDROC	Saudi	100%
9	St. George Brewery	10,000.00	1998	BGI Ethiopia	French	100%
10	DireDawa Textile Factory**	13,630.00	1999	Mr. Atila Yildirim	Turkish	100%
11	Adei Ababa Yarn Factory (Block one)**	3,630.00	1999	Mr. Atila Yildirim	Turkish	100%
12	Three Tea Development Enterprises #	27,000.00	2000	Ethio Coffe and Tea plantation and Marketing	Saudi	100%

				PLC		
13	Gojjam-Gonder Agricultural Development ##	12,500.00	2000	Ethio Coffee and Tea Plantation and Marketing PLC	Saudi	100%
14	Awassa Textile Share Co.		1999/00		Chinese	Management Contract
15	Kombolcha Textile Share Co.		1999/00		Chinese	Management Contract
16	Arba Minch Textile Share Co.		2000		Turkish	Lease

Source: Revitalization Review Vol.1 No.1

Note

* Dire Dawa, Gondar, Kombolcha, Melge Wendo, Ethio Meat Factories, Popularity Enterprise,

Chafe State Farm, Cattle Marketing Enterprise

** To be paid over a period of five years in annual installments. In addition cost of stock shall be

paid according to value on the closing date

Wush Wush, Gumero, Tea production and marketing enterprises

Including Ayehu, Lower and Upper Birr Farms

Annex -5- Post Privatization Performance of Some Enterprises And Current Investment Made by the Owners

S.N.	Name of the enterprise	Contract price in Birr/\$US	New investment	Man Power When Privatized	Current Man Power
1	Kuriftu Dairy	1,800,000	4,500,000	28	34
2	Salale N2 & 3	1,200,000	255,000	43	43
3	Rephi Dairy Farm	5,280,000	5,500,000	50	65
4	Hora Ras Hotel	8,700,000	1.8000,000	55	50
5	Blue Nile Ras Hotel-Changed to (Bethzatha Hospital)	6,501,100	17,000,000	68	121
6	Adwa Flour Mill	20,629,102,43	480,000	120	107
7	Debirzeit Flour Mill	8,000,000	3,000,000	161	130
8	Anbessa Flour Mill	12,335,082	855,000	304	105

9	Dessie Soft Drinks	105,356,891,10	55,000,00	1,462	1,567
10	Gonder Soft Drinks				
11	ABAY MESK Soft Drinks				
12	Dire Dawa Soft Drinks	64,030,000,08	32,000,000	812	848
13	Addis Soft Drinks				
14	Finfine HH.&O.Furniture	7,110,000	7,500,000	169	184
15	Dil paints Factory	35,000,000	5,500,000	124	118
16	Ethio Tannery & Pickling	35,500,000	12,000,000	363	308
17	universal leather article	16,205,000	1,500,000	317	290
18	Large Dembi mine	\$172,000,000	192,000,000	625	631
19	Awash Leather factory	127,781,850	16,000,000	757	693
20	Ethiopian meat concentrate factory	\$4,911,688	-	257	146
21	poultry Development including the new project	\$19,293,144	240,000	183	180
22	Melgue wondo Meat & vegetables Factory	\$8,731,532	-	593	306
23	Gonder Meat Factory	\$2,303,146	-	110	45
24	Dire Dawa Meat Factory	\$6,294,036	-	281	30
25	Combolcha Meat Factory	\$2,068,247	-	459	164
26	LIVE STOCK MARKET	\$10,006,554	-	409	297
27	CHEFFA FARM	1074,174	-	155	108
28	Pile Foundation & Water Construction Enterprise	6,201,703	2,500,000	70	65
29	Saint George Brewery Factory	74,248,086,81	57,400,000	509	353
30	National Tobacco Enterprise	285,955,707.3	68,000,000	1338	1340
31	Akaki blanket Factory	10,173,844.43	40,000,000	320	355

32	Kality Spinning & socks	20,646,323.27	1,900,000	604	604
33	Wush Wush & Gumero tea prod Market Ent	\$27,000,000	2,500,000	1140	1075
34	Godjam Gondar Agricultural enterprise	\$12,500,000	1,600,000	280	280
35	Akaki Animal Feed	3,200,000	455,000	66	66

Source: Privatization Review Vol.1 No.1

Annex 6

Summary of Results for Sixteen African Privatized Firms

This table presents the empirical results for a sample of sixteen African privatized firms. For each performance measure, it provides the mean and median values for the three-year period before and after privatization, the number of available observations and the change in mean and median values. It also provides the Wilcoxon Z statistic for the difference in medians, the proportion of firms that behaved as predicted, and a test of significance for this proportion.

Variable	Mean before (median)	Mean after (median)	N	Mean Change (median)	Z-Statistic for difference in median (after-before)	Proportion of firms that behaved as expected in %	Z-Statistic for significance of proportion change
<i>Profitability</i>	0.1090 (0.0860)	0.1345 (0.0838)	15	0.0255 (0.0050)	1.022	53.00	0.0584
Return on Sales	0.0505 (0.0459)	0.0618 (0.0450)	16	0.0113 (0.0024)	0.414	44.00	0.824
Return on assets	0.2634 (0.1976)	0.2930 (0.1835)	14	0.0296 (0.0141)	1.099	64.00	0.497
Return on Equity							
<i>Efficiency</i>							
Sales efficiency	0.6613 (0.4118)	0.6422 (0.3665)	15	-0.0191 (-0.00123)	0.454	47.00	0.670
<i>Capital Investment Spending</i>							
Capital expenditures/sales	0.0352 (0.0353)	0.2054 (0.0628)	12	-0.1702 (0.0390)	1.804***	67.00	0.795
Capital expenditures/total asset	0.0183 (0.0060)	0.0790 (0.0168)	13	0.0607 (0.0096)	1.642***	69.00	1.082
<i>Out put</i>							
Real sales	0.9562 (0.9900)	0.9048 (0.9853)	15	0.1702 (0.0390)	0.314	40.00	1.014
<i>Leverage</i>							
Total debt/total assets	0.6811 (0.7430)	0.6626 (0.7441)	15	-0.018 (-0.0029)	-0.738	40.00	1.015
Long-term debt/equity	1.5702 (0.40083)	1.5528 (0.4353)	14	-0.0174 (-0.0196)	-0.392	29.00	0.824

* Significant at the 1% level

** Significant at the 5% level

*** Significant at the 10% level

DECLARATION

I the undersigned, declare that this thesis is my own original work and has not been presented in any university. All sources of materials for this thesis have been fully acknowledged.

Declared by: Name Mulatu Fekadu Zerihun

Signature



Date

20 June, 2005

Approved by : Name Prof.Teshome Mulat

(Advisor)

Signature



Date

20 June, 2005

Place : Addis Ababa

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